From: s9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 10 June 2021 2:54:52 PM

Accountability Net would like to make the following submission.

1. Oppose this change - due to unfair and inconsistent tax policy.
2. That existing house stock that requires recladding and the installation of double glazing (in effect a new build) be excluded from these rules.

Thank You

Be kind and generous, bring the best of who we are and what we do to the world

s9(2)(a)

s9(2)(a)

PO Box 303 423
North Harbour
North Shore City, 0751

44/46 Constellation Drive
Block 2, Unit F
Rosedale
North Shore City, 0632

s9(2)(a)

From: s9(2)(a)
To: Policy Webmaster
Subject: [SUSPECT SPAM]Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 10 June 2021 7:49:55 PM

To whom it may concern,

After reading the document regarding the design of the interest limitation rule and bright line rule,
I strongly believe that option 1 or option 2 are the fairest options and will be the best for encouraging people to build new housing stock.

Option 1: ‘early owners’ are exempt for the entire time they own the property
• Option 2: the same as option 1, plus any subsequent owners are exempt for a fixed period after the new build received its code compliance certificate (such as 10 or 20 years).

Thank you for your time and consideration.

Yours sincerely,

s9(2)(a)

From: s9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 10 June 2021 7:57:07 PM

To whom it may concern,

After reading the document regarding the design of the interest limitation rule and bright-line rule, I strongly believe that option 1 or option 2 are the fairest options and will be the best for encouraging people to build new housing stock.

Option 1: ‘early owners’ are exempt for the entire time they own the property

Option 2: the same as option 1, plus any subsequent owners are exempt for a fixed period after the new build receives its code compliance certificate (such as 10 or 20 years).

Thank you for your time and consideration.

--
s9(2)(a)
[redacted]

From: s9(2)(a) [redacted]
To: Policy Webmaster
Subject: [SPAM]Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 10 June 2021 8:21:33 PM

Hon Minister and working group members,
Thank you for the opportunity to discuss this important matter.
Firstly let me introduce myself. I am Chartered Professional Engineer s9(2)(a) [redacted] s9(2)(a) [redacted].
Please find below the key points for your consideration:

1. Some rental properties are rented to the tenants directed by charity trusts s9(2)(a) [redacted] or directly to people on benefits. In those cases private landlords are acting as Social Housing providers- Kāinga Ora . Therefore, in response to your Question to Submitters on page 38 : **Please note that by treating private landlords different from Kāinga Ora, you will discourage private landlords from renting out to people in need.**
2. New Zealand cities known for high house prices are already congested around city centers. The common way of densification is by replacing old properties on large sections with new multi-dwelling buildings. The consenting process is usually long and inefficient. The consenting process depends on scale of development and sometimes takes few years. During this period the developer has to rent out the existing property and act as a landlord in order to stay cashflow positive. All the interest deductibility options proposed in your document are complex for small developers. Therefore, in response to your Question to Submitters on page 72 : **The proposed complexity of calculations of tax deductibility will reduce number of new development projects based on densification, predominantly in the major cities.**
3. As you know, the majority of existing landlords/ investors own 1-4 properties as a vehicle to generate long term wealth. They acquired the properties below the current market values and their loans are low relative to the market value of their equity. Therefore in response to your Question to Submitters on page 129 : **The removal of interest deduction won't force those investors to sell their properties, but in order to stay cashflow positive , those investors will rise the rents. We already witness the sharp increase in the rents following Government announcement on 23 March 2021 and this is just the start.**
4. Please note that in UK, following 2017 announcement of tax deductibility removal , the rents increased so much that in 2021 government offered to investors 20% tax credit on interest payments.

Hope you find my comments useful. Feel free to rich out if I can be helpful in your work.

Kind regards,
s9(2)(a) [redacted]

From: s9(2)(a)
To: Policy Webmaster
Subject: [SUSPECT SPAM]Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 10 June 2021 8:55:35 PM

Hi there,

This is my submission for the above chances, I believe to truly give incentive to have more new builds build option 1 or option 2 of the below are most suitable:

• Option 1: ‘early owners’ are exempt for the entire time they own the property
• Option 2: the same as option 1, plus any subsequent owners are exempt for a fixed period after the new build received its code compliance certificate (such as 10 or 20 years), or
• Option 3: all owners of a new build are exempt for a fixed period after the new build received its code compliance certificate (such as 10 or 20 years)

Thanks
s9(2)(a)

From:	s9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Thursday, 10 June 2021 9:15:15 PM

Hi there,

Note: Brightline is not an issue. The majority of property investors do not plan to sell within 10 years so would be unaffected. Consideration should be given for when people decide for legitimate reasons to change ownership e.g. winding up a trust and moving a property into their own personal name or a company because they do not see a benefit to having a trust now. In this case, these changes of ownership should not be subject to a 10 year brightline and should not be subject to capital gains tax or lose their interest deductibility in full immediately. These new rules will create a lock in effect for peoples current ownership structure. This should also be considered for new builds where people own a new build in their own name but want to change their ownership structure e.g. own it in a company due to legitimate business reasons. People should not lose their interest deductibility and be subject to a bright line/capital gains tax for ownership structure changes.

Specific response to questions:

On page 47:

The approaches proposed above are aimed at making compliance easier for taxpayers who would otherwise have to apply tracing to pre-27 March loans.
• Which of the proposed approaches do you prefer?
• Do you have any suggestions on how the proposed approaches can be made simpler?
• Are there alternative approaches you would prefer? If so, how would that alternative approach work?

My response: My preferred option is Option 2: stacking based on market values. Also you need to consider how loans apply when in different names. i.e. A loan is technically in a personal name, but the funds were used by a company to purchase a new build. Therefore the interest on this loan should be exempt and be fully deductible to the company. This whole consultation document is 143 pages long. It is way too complicated. The way to make it easier would have been to not do any of this in the first place, but because it is political and was announced by press release, please try and make things as simple and practical as possible.

On page 75:

Comments on all aspects of the proposals are welcomed. Below are several questions that the Government would specifically like to seek feedback on from submitters: • What do you think of the proposed definition of new build? • Are there any issues that you think the Government should consider in relation to the definition of new build and: − papakāinga housing? − heritage buildings? • Is there some tool that could be used to identify when a dwelling that is completely uninhabitable has been improved significantly, such that it has added to housing supply?

My response: I think this needs to be carefully worded when it is implemented. For example, I see a lot about Code of Compliances, but I don't see anything about turn key builds purchased off the plans from developers? Could you perhaps make it a little clearer as most investors purchase new apartments/townhouses/land+build packages straight off developers? I would think these should always be exempt from these tax changes regardless.

On page 91:

Comments on all aspects of the proposals are welcomed. Below are several questions that the Government would specifically like to seek feedback on from submitters: • Should the new build exemption apply only to early owners, or to both early owners and subsequent purchasers?
• What application period for the exemption do you think best achieves the objective of incentivising (or not disincentivising) continued investment in new housing? The options are: in perpetuity for an early owner only; in perpetuity for an early owner and for a fixed period for subsequent purchasers; or for a fixed period for both the early owner and subsequent purchasers

My response: This is the most important question in the whole document, especially regarding new builds. The government needs to ensure that the new build exemption is as wide as possible. It needs to apply for as long as possible ie. at least 30 years. Investors buy a property with a 30 year timeframe. Any investor should be purchasing for rental returns and not capital gains. They should not be planning to sell the property within 30 years. So if the new build exemption is any shorter than this, it will reduce investor demand to buy/build more new homes and will result in fewer homes being added to New Zealand's total stock. I think it is less important about whether it applies to subsequent purchasers or just the initial purchaser. But it would be ideal if restructures e.g. moving properties from trusts/company to personal name etc. were treated as a continuation of ownership and the person did not lose the benefit of the property being a new build simply because they changed the ownership structure. So perhaps you do need to ensure that the exemption applies to subsequent purchasers too. Because these structure changes usually require selling to the new entity or a deemed sale.

On page 105:

• Should rollover relief from interest limitation be provided for transfers on death? • If rollover relief is provided for properties subject to the new build exemption on death of an owner, does there need to be a time limit on the availability of relief?

My response: This needs to be included. s9(2)(b)(ii) [redacted]
This could be avoided if all subsequent purchasers of new builds were exempt too.

On page 142:

The Government is seeking feedback on the following: • Are there issues with adding new fields to income tax return forms for total interest incurred in relation to land used for income-earning purposes and the amount of this interest that has been deducted? • What data points might Inland Revenue be able to use to verify that a person qualifies for the new build rules? • What records should taxpayers have to provide or keep in order to show that they are eligible for the new build rules? • Are there issues with relying on CCCs to determine whether a property is a new build? Are there integrity issues the Government needs to consider? • If there are problems with relying on CCCs, what else could be used to verify that a property is a new build? • What information could subsequent purchasers *use to determine that a property they have acquired is eligible for the exemption for new builds from the proposed interest limitation rules?*

My response: Property investing is a business. These changes never should have been announced in the first place. Interest is a business expense. A lot of property investors will use companies for their property investing business. I think that IRD will need to rely on individual taxpayers to implement the rules and a minimal amount of new information will be able to be collected by IRD. However, if there are optional forms, these should be completed by taxpayers on most occasions. This is best practice.

Kind regards,
s9(2)(a)
[redacted]

From: s9(2) [redacted]
To: Policy Webmaster
Cc: x@xx; x@xx
Subject: Interest deductibility consultation - feedback
Date: Friday, 11 June 2021 8:51:41 AM

To whom it may concern

cc: The Prime Minister

cc: The Finance Minister

The decision to remove interest deductibility is wrong. s9(2)(b)(ii) [redacted]

Borrowing money to provide rental accomodation is a legitimate business expense. It is not a "loophole" as our PM and Finance Minister triy to spin the narrative. Its wrong, its bad, its dissapointing from a Government that said it would be honest and transparent, which is anything but.

These rules dont do anything to stop house price rise. Everyone else knows what the reason for that is - why cant the Government do something meaningful about that instead of demonising landlords?

I simply cant trust or believe a thing this government does. It is so much against middle New Zealand. And I had such high hopes when this Prime Minister was elected.

And where is my Covid vaccine... (Gold standard, Top of the queue... Yeah, right!)

Regards

s9(2)(a) [redacted]

From: s9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Friday, 11 June 2021 3:28:11 PM

Hi

I submit that;
1. New Builds should be defined as being the first owner of the property after the developer or any other owner within 2 years of the CCC being issued.
2. Interest costs should be deductible for the duration until the property is subsequently sold (related party transactions excluded)
3. Older Purchases (prior to March 27 2021) that meet these criteria should continue to be fully deductible
4. In general, these rules should only apply to purchases made after march 27 2021 and not existing properties as this could have severe impacts on some people.
5. The bright-line test should be retained at 5 years as the interest deductibility changes should be enough to dampen speculation

Feel free to contact me if you have any questions.

Thanks
s9(2)(a)

From: s9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Friday, 11 June 2021 4:35:04 PM

Sirs

I wish to **OPPOSE** certain aspects of the proposed legislation, in particular the removal of the ability to claim interest payments on loans used for the purchase of rental properties as a tax deduction.

At present, every business is able to claim interest paid on monies borrowed for the operation of the business as a tax deduction. Owning and operating residential rental houses in no less a business than any other business in which an initial investment is required and which borrows to fund that investment. Owning and operating rental property is no more or less a business in view of the capital appreciation of the assets owned by that business and against which loans are secured.

Why, then, select residential rental property businesses as the only class of business or industry to be penalised by this proposed means?

In any business, the income generated by business operations provides the funding for the payment of all outgoings. In the residential rental property business, the income is generated by rents paid by tenants. There is no income from capital gain while the property is held by the business. Therefore, reluctantly, the increase in expenditure incurred by the business being unable to claim interest paid on loans required for business purposes must be passed on to those providing the income, viz. the tenants, who are already paying indirectly those additional costs incurred to upgrade rental properties to meet the Healthy Home Standards, regardless of whether these modifications are desired or required by the tenants.

Therefore, introduction of this limitation rule will increase the costs of renting residential property, especially as the Bright Line Test rules disincentivise the sale of rental property, possibly preventing the sale of these properties to first home and other private purchasers.

Investors in residential rental property usually have one or two properties which they purchase as an investment to provide themselves with more income after retirement, a policy promoted for many years by financial advisors as well as by successive governments, who have repeatedly told people that the pension is for assistance only, and that people would be prudent to invest for their retirement elsewhere. Rental property is therefore seen as an excellent option because it is one of the very few investments which maintains its value during times of inflation. It also provides the 'feel good' factor of allowing people of moderate means to provide high quality accommodation for those who either choose to rent or cannot afford to purchase their own house. (Some of these tenants become long-term friends, even after their tenancy ceases.) These privately owned rental properties form the majority of the rental housing pool in New Zealand; without privately owned rentals, the government would find it even more difficult, or impossible, to house those who are 'homeless' than it does at present. To actively discourage and punish those who are attempting to provide suitable, high-quality, accommodation appears to me to be very counterproductive. Even if all landlords were to sell their rental houses, the number of homeless people would rise because, statistically, rental homes house more people than the same number of privately owned homes.

I believe that to remove the ability to claim loan interest against taxable income would also set a very dangerous precedent. At this time, many businesses are struggling due to the effects of lockdowns and border closures, limiting their ability to employ needed seasonal workers and preventing overseas visitors from enjoying tourist activities, which was one of the largest business sectors and generators of overseas funds. For the government to take the unprecedented step of removing a legitimate taxable reduction would very likely decrease the feelings of security of other business owners as they wonder which sector would next be in the government sights. It is of interest that even IRD disagrees with the proposal to remove the tax deductibility status of loan interest.

For the above reasons, therefore, I strongly **OPPOSE** the reduction and ultimate removal of the ability for residential property rental businesses to be able to claim interest on capital loans as tax deductible expenses.

s9(2)(a) [redacted]

[redacted]

[redacted]

From: s9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Friday, 11 June 2021 5:00:53 PM

---

1. I fundamentally oppose the recent rule change that taxes residential rental revenue *instead* of the previously economically sound rule of taxing net profit after interest deductions.

2. I believe this new rule should not be activated in any shape and the government should retract its penalty bias position, and positively recognise the valuable contribution tens of thousands of New Zealand's landlords make in providing long term accommodation services to those who choose to rent.
3. Therefore, everything in the design of the 'interest limitation rule', as complex and unintended consequence ridden as it is, is redundant.

4. I support the extension of the Brightline test to 10 years for all property unless owner occupier or primary use for owner occupier (like a bach rented out for less days than the owner uses it). However, I note that the IRD already has powers to tax investors if they purchase and sell within ten years, so also believe the Brightline test is redundant.

Thanks

s9(2)(a)

From: s9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright line rules
Date: Friday, 11 June 2021 6:52:24 PM

I fundamentally oppose the recent rule change that makes interest non-tax deductible as well as the new 10 year Brightline tax

1) This is against the principles of business tax law of interest being tax deductible when used to generate taxable income.

2) This is also a blatant attack against residential property investors and the tens of thousands of landlords' valuable contribution of providing long term rental accommodation to tenants.

3) Brightline was introduced to separate property speculators from investors. The IRD already has powers to tax investors who buy and sell within 10 years and therefore this policy is redundant too.

From: s9(2)(a) [redacted]
To: Policy Webmaster
Cc: s9(2)(a) [redacted]
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Saturday, 12 June 2021 3:33:54 PM
Importance: High

Ni Hou Sir/Madam/Other

I am unsure why this consultation process would be administered by IRD? It is a select committee/parliamentary role.

With respect to the proposed changes to the above, I note the following as relevant in my view to the issue/s and related matters: -

1 Interest deductibility

- As proposed, the plan is retrospective for all existing landlords, potentially for some landlords that "retrospective" factor maybe applied backwards for decades. This is what is called "Draconian". Retrospective laws should only be possible when absolutely necessary, there is no such need here.

- Should these provisions be enacted (the justification is very much questionable, if not non-existent…), then it should only apply forwards i.e. from 27/3/2021, only then to any property purchase thereafter.
- An alternate option, Interest should be allowed as a deduction, but added back at the time of sale where the brightline rule applies i.e. sold within say 5 years. That would then not affect long term landlords, instead targeting short-termers. There should be provision/exceptions e.g. mortgagee sales, death, health, relocation based etc.
- It is indeed reasonable that a citizen of NZ should be able to rely upon and make decisions such that the law is known at the time of doing so. It is abhorrent it is retrospective and so contrary to fairness, equity in law to do so.
- As a core notion, interest should be deductible as a cost or expense related (a nexus exists) to and necessary to the ownership and operation of an income earning asset.
- To implement the proposal will have a substantial economic impact e.g.
    a. Less houses will be available to rent as many existing landlords will not be able to afford to: buy, invest and then rent out.
    b. Rents will increase yet again – Economics <101 supply and demand will dictate that
    c. Many tenants are lower income earners and least able to afford to buy or pay more rent.
    d. It will distort the property market
    e. Panders to large scale property owners, anti-Mum/Dad investors
    f. Is intended to remedy house supply issues, but not by addressing the core issue – see below re RMA
    g. The intention apparently, is to discourage existing homes being tenanted and instead aim for new builds as tenantable houses. That will not remedy the housing shortage issues as that is not the issue obstructing increased housing builds – see RMA below…
- This measure is simply penalising a residential landlord for Government failings to address the core issue/s related to housing – see RMA below…

2 Who is affected…

- The above #1 makes that obvious – landlords of existing residual property
- As an equally obvious consequence – Tenants of existing residential property.
- As an equally obvious consequence – in the future, tenants seeking existing residential property.
- The availability of residential housing will in effect have a “sinking lid” on it as existing landlords exit the market and new landlords look elsewhere, all for financial reasons, i.e. that many mum/dad investors will have to sell, just because of financial hardship reasons.
- However, in addition tenants are very much further impacted, that less houses will be available to rent and the rents will be higher.
- These measures do nothing to address the actual and real issue, the core issue regarding property values and so the shortage – of readily available land, materials and tradespeople – see RMA below…
- Economics <001 – supply and demand… where supply is fixed, limited or

restricted and demand is more and increasing then inevitably the "price" will increase. Examples – oil shock of the late 1970's, OPEC meet often to agree to alter volumes with the specific intent of altering price. This applies to sections, materials, house prices and rental.

- Many tenants are already MSD reliant (rent subsidies), the rent increases to date and going forward will require even more MSD handouts. This is of itself a further burden on the taxpayer, tenants and the like. This factor will eliminate much of any tax collected. In fact as the rental property available reduces, the increased demand and need of tenantable homes will likewise impact significantly the tax collected. One then has to ask what exactly is the purpose and intent of it all?
- The most likely answer here is that any tax collected on a portion only of houses rented out etc will be perhaps offset by the overall needs of many more to have an increased MSD subsidy. The Govt is unlikely to see much net revenue out of this.
- The media have already reported on the likely answer, rents will increase to cover the tax cost burden on landlords, that then in turn will be (to a large extent) covered by MSD.
- Should the Govt make yet another "extreme" move to impose a rent freeze or restrict the increases possible, that will only worsen all the above further and distort the market place even more. There can be no "good" outcome of that either.
- Should the fall out be significant i.e. to many landlords seek to sell off tenanted property, then the market place will be swamped when jittery already. Consequence, that many a landlord/bank will perhaps loose money also.
- Consequence of the above, many existing landlords and home owners will loose significant equity and so be placed at risk re the Banks acting to avoid loss.
- A risk in the market place means that the banks will be reluctant to lend on any house buy, landlord or not. The Government aim of lower the market price and encouraging owner-occupiers will also fail to materialise.
- We are already see this happen now, the bar has lifted significantly for buyers to obtain finance approval. The Government aspirations here also fall well short of reality.
- The landlords will be able to act and react a lot quicker than the market can to address any shortfalls in housing needs. That should be already self-evident to the Government, if you are still not sure of the answer, simply ask MP Phil Tyford why he had a change of job last term?
- This is not "tax simplification".

3 Types of property affected

- Clearly, exiting landlords are the target group, which perhaps is some 30-40% of all residential property in NZ. Of that, a very large portion will have debt and of those a majority will have high debt. A very large portion of the market will be adversely impacted which is the intention, however the outcome most likely will not be an "improvement" as hoped and desired.
- The change re Interest creates a difference in the interest rules compared to other economy sectors, as a result resources will move away to other sectors – this in fact is contrary to the stated intent or purpose.
- The aim is to encourage new builds (something that the Govt – Kiwibuild failed

spectacularly and inevitably to achieve) however, if the land need to be built on, the ability to buy/borrow, the availability of materials, competent trades etc are already at capacity then again, nothing will be achieved. See RMA item below.

- Some will change use to AirBnB or something or in fact anything else.

4 Brightline changes

- The change makes no sense, five years is bad enough…
- The main purpose perhaps of the Brightline was to tax speculation, that being seen as the "cause" of price increases in property. To state the obvious, the obvious correlation between the increase in how onerous Brightline is as compared to market price cannot be ignored. Although only one factor, the parallel is unmistakable.
- The Brightline is in effect a targeted capital gains tax, tax of this type can only been seen as a handbrake on economic activity, obstruction to development and so on, just another cost to be added to the land, section and house cost/s for homeowners – end users.
- I repeat that the impacts, consequence/s as noted in 1-2 above – much applies here also.

5 Development exemption – obvious – but not the solution at all – far from it – see below re RMA.

6 Interest deductions – when sale occurs – yes, obviously it is a cost related to ownership. Not to do so will only exacerbate items 1-4 above.

7 Brightline changes test – See 4 above.

These proposed law changes are in fact nothing less than a 100% acknowledgement by Government that it has failed to achieve anything of value or use in the last 3-4 years re housing. It also verifies that there is little or no understanding about the market place, the commercial world and how or why it exists and succeeds. In fact the opposite is very much self-evident from these proposals.

In my view, the most significant issue/s are as below and Government have ignored these to date 100%. The obvious fails here will have a significant and medium to long term impact on the NZ wide property market and some areas of it more than others. The only questions then "is how much" and of course "Consequence" for the citizens of NZ.

If the Government and or any member of it was genuinely and truly looking to remedy the housing shortages in NZ then, it would already be aware of and have remedied the following…

RMA – the elephant in the room…

A. The Government knows of and has failed to remedy anything material in this arena.

B. The single biggest obstruction to development and building include: -

a. Councils using the RMA as a fee and revenue collection device, at all levels: - Subdivision fees and costs, building costs, inspections, fees and charges, demands for multiple fees, double ups in compliance demands, non-building code demands or no consent issues etc.
b. Councils slowing down and delaying subdivisions and consenting processes to maximise revenue extraction.
c. Building Consents – Tauranga city experiences on average 3-4 months (see BDO report of 2017) as independently confirmed.
d. There are many Code of Compliances not issued on time.
e. No accountability for Council staff or the minions/consultants on the Council payroll.
f. A lack of MBIE oversight and enforcement in a timely and effective manner
g. Councils are effectively left to self-rule, self-determine etc and that can be a terrible weapon in the wrong hands.
h. Councils demand of obedience even when illegal, non-complaint, non-building code – MBIE does nothing…
i. The costs mount up to build at every level, time runs and in the end the house build cost increases for these endless inefficiencies.
j. Councils generally fail to comply with S10 of the LGA
k. It is fatal to a person's income, livelihood and so on to dare to question…

C. The Govt has confirmed its awareness of all of this by providing fast track/bypass for some of its own plans for building and development and so on e.g. approved social housing projects etc. Obviously that awareness is not then being used to remedy the whole issue NZ wide – the failure to do that then fails to remedy the NZ wide issue.

D. If, and I mean "IF" a Council was required to administer the RMA as intended, many NZ wide issues would be remedied re: -

a. Availability of land/sections – sooner faster and more cost effectively.
b. Time frame from application of title available would be considerably less. As a result of the general obstructions here, only the few wealthy developers can afford to carry the can re the timeframes required etc.
c. Compliance costs to build are excessive
d. Time delays and extraordinary demands (often excess and alleged compliance demands), also add to the cost and delay to complete.
e. All the above ties up existing housing awaiting the pleasure of Councils and their minions to be able to be occupied.
f. A simple equation… as an example.
    - Assume Tauranga City has 2,000 building consents annually.
    - Assume that the building consent takes an average of 60 working days (12 weeks) to be issued (statute requires 20 working days – four weeks).
    - That is an 8 week delay/house
    - For 2,000 houses that it 16,000 weeks delay or the equivalent of 44 houses for a full year.
    - The impact is compounding by nature over time and extremely harmful to all involved i.e. homeowners, trades and more.
    - That means there are 44 homes that can not be occupied and 44

existing homes that are occupied a year longer than needed – that is only measuring the Building Consent step in the process.

- If one looks also at: - three weeks to get an inspector on site, anything and everything requiring amendments to be lodged, fees paid and delays resulting onsite. There are numerous cases of 500-550 days/time being required from Building consent application to Code of Compliance being issued. The "efficient" period of time needed should be around 5 months or 150-160 days.

g. The substandard levels of Council competence exacerbates all the above.
   - The Bureaucratic excesses also add to the time, delay and cost – all get passed on to the homeowner, housing costs rise.
   - MBIE need to set a NZ wide consent fee regime rather than being set at a Council level. The reasons are obvious… Tauranga is $30k o so for a basic house consent, Western BOP is around $4-5k, there is no justification for this huge difference except to provide massive developer subsidies – hence Council is broke and broken, housing costs rise..
   - Councils do not comply with S10 of the LGA – hence: - time, delay and cost – all get passed on to the homeowner, housing costs rise.
   - Further, the requirements/compliance costs demanded by Council amount to some 30-35% of the total cost to build, as the delays, additional and repeat costs, duplications and excesses occur, these are all passed on to home owners – the buyers, housing costs rise.

h. Independent reviews and MBIE have confirmed much of the above and remains without resolution and no sign even of any attempt to do so.

That is but an overview of the very much obvious issues here, particularly the failures to spot and remedy the cause/s.

s9(2)(a)

Stevenson Accounting Ltd
89 Fifth Avenue, Tauranga 3112 NZ
s9(2)(a)

Submission – Design of the interest limitation rule and additional bright-line rules

I am a **property investor**. s9(2)(a) [redacted] I am not a **property speculator**, which is a completely different type of investor.

I am fully supportive of the proposed extension to the bright line test to 10 years as this will dissuade property speculators from buying and churning property for a profit, which has contributed to rapid property price inflation over recent years. However, the proposal to remove interest deductibility will impact not only speculators but also long-term property investors who currently provide the majority of private housing to renters in New Zealand.

There will always be people who want to rent rather than own property for several reasons: they may not want the responsibility of home ownership, they may be saving for a deposit to eventually buy, or they may not be planning on living in an area for long enough to buy there. Whatever their reason, there will always be demand for properties to rent and, unless the Government is planning to build a significant number of state-owned houses, there will always be a need for investors to provide those properties.

The removal of interest deductibility will make it unviable for many property investors to continue to provide housing to renters. They will be forced to sell their properties. While the resulting increase in supply of houses on the market might be a bonus for house buyers, **where will renters live**? There is already a massive shortage of rental accommodation in this country. Tenants who will be displaced as landlords are forced to sell will further exacerbate the current housing crisis.

s9(2)(b)(ii) [redacted]

A further impact from this change will be that New Zealand's rental housing stock will deteriorate as any new borrowing to improve existing housing is not exempt.

s9(2)(b)(ii) [redacted]

I do not believe the Government has considered the impact that removing the deductibility of interest will have on providers of rental housing or on renters - who will be the ultimate losers as the rental housing pool shrinks and rents increase.

s9(2)(a) [redacted]

From: s9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 13 June 2021 2:42:40 PM

Hello,

I am writing to make a submission about the new interest limitation rules.

s9(2)(b)(ii) [redacted]

s9(2)(b)(ii) [redacted] This is completely unfair, unequitable and doesn't make any sense.

When the time lines being considered for a new build to be considered a new build are 10 to 20 years, then surely a house that was only 6 months old at the time of legislation change announcements should be exempt from changes.

I would like to suggest that people could get an exemption if they have received a CCC cert from council within the 12 months before changes were announced. Ie: anyone issued a CCC on or after March 27 2020 if the home is up to the healthy homes standard. This is fairer on people who have invested in a new build recently who are currently feeling a bit ripped off by the system.

s9(2)(b)(ii) [redacted]

I hope you'll consider my submission.

Kindest Regards
s9(2)(a) [redacted]

From: s9(2) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 13 June 2021 8:43:51 PM

Submission: Residential property subject to interest limitation.

"The Government intends to remove the ability to deduct interest as an expense from income arising from residential property. For residential property acquired on or after 27 March 2021, investors will no longer be able to deduct interest costs from 1 October 2021. For properties acquired before 27 March 2021, investors' ability to deduct interest will be phased- out over 4 years from 1 October 2021. This is intended to reduce pressure on house prices and make it easier for people to own their own home."

"The 10-year bright-line test only applies to properties acquired on or after 27 March 2021. If a property is considered a new build it will instead be subject to a 5-year new build bright-line test. It is proposed that the new build bright-line test would apply to anyone who:"

s9(2)(a)

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

1) Interest Residential property subject to interest limitation.

I am against the government proposing to apply interest limitations as proposed. No other country imposes a control in this measure. Interest payments is a true cost to owning a investment property as it is a cost for any other business. Interest costs should not be treated this way for mum and dad investors like us. It means to make it viable to own an investment property that we only purchased to have means for financial security in 15 + years from now. The additional tax will need to be passed on to the tenants s9(2)(b)(ii) [redacted]

[redacted]

[redacted]

[redacted]

2) Chapter 8 - New build – exemption from interest limitation

If you are going to apply the interest limitation exemption to new builds. Why not include new builds back to 25 years. If an investor like us purchased a new build give them the same exemptions, it is not fair that a new build built today is exempt but a new build built last year is not exempt. You could back date new builds back to match the time it will take to pay it off say 25 years so back date the new build date to 27 March 1986. Or even 20 years to 27 March 1996.

3) Tax rate for residential property.

s9(2)(b)(ii) [redacted] Other countries use a different tax rate (lesser rate) for this type of income. Consider a variable tax rate for the income off rental income.

Like Australia
Rental income for tax purposes
According to the Australian Taxation Office (ATO), rental money you receive from renting out a part or all of your property is considered to be assessable taxable income. This means it's taxed at your marginal tax rate and must be declared in your income tax return.

The marginal tax rates for 2020-21 below show how much tax you may have to pay on your rental income:

Taxable income	Tax on this income
0 – $18,200	Nil
$18,201 – $45,000	19c for each $1 over $18,200
$45,001 - $120,000	$5,092 plus 32.5c for each $1 over $45,000
$120,001 – $180,000	$29,467 plus 37c for each $1 over $120,000

4) Bright line - labour promised they would not change this where is the integrity. However exemption for New Builds should be back dated to 25 years old. So would stay at 5 years. s9(2)(b)(ii) [redacted]

In summary

s9(2)(b)(ii) [redacted] I am against the Interest Limitations on residential property as these costs will be passed to tenants. New builds should be classed new builds for at least 20 years. It is unfair that a new build last year is classed differently to new build today. Rental income should have a graduating tax rate independent of wages tax rates.

Yours sincerely

s9(2)(a) [redacted]

From: s9(2)
To: Policy Webmaster
Subject: Design of interest limitation rule
Date: Friday, 11 June 2021 3:09:49 PM

Dear Sir/Madam

Running a business. Interest costs, business costs are taken into account before ascertaining profit. Then, tax is paid on profit.

Taking away the ability to apply the cost of the interest part is inherently wrong. This is NOT a loophole it is a legitimate expense.

Providing rental accommodation IS running a business. Without private landlords where on earth would the population who don't own their own homes, be?

Allowing loopholes for new builds? What is that all about?

Paying tax on money not earnt?

WRONG WRONG WRONG.

This country is going to the pack. With a dictator in charge. Says she won't introduce a capital gains tax. Instead introduces a flawed law. Perhaps she needs to go to business school?

Very angry

From: s9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Saturday, 12 June 2021 4:46:42 PM

Hello,

My feedback on the recent announcement.

I vehemently oppose the recent rule change that taxes residential rental revenue, rather than taxing net profit.

This is a punitive politically motivated initiative. A serious departure from the basic economic principles of taxing business' on net profit with the ability to seek deductions from genuine expenses should simply be ruled out, and alternative measures with clear rationale put forward for public debate.

Regards,

s9(2)(a)

From: s9(2)(a) [redacted]
To: Policy Webmaster
Subject: Tax changes to Interest Deductibility
Date: Saturday, 12 June 2021 6:42:06 PM

---

s9(2)(b)(ii) [redacted]

The recent changes to tax deductibility should not apply to property owners that already have set in place interest only loans. How does interest deductibility on my existing portfolio of properties affect anyone buying in this market now- it doesn't, obviously just a tax grab. Firstly I believe interest should always be able to be claimed as a legitimate expense. If Labour insists on making a change it should only apply to new purchases. I made important decisions based on the tax rules many years ago then they are changed without any consultation. Disgraceful and not a way to run a democracy.

None of the changes Labour is making is assisting first home buyers. We live in a free market, just leave the property market alone as more damage is being done than good. Certainly not assisting the rental market or first home buyers. If Labour is serious about helping first home buyers let the banks loan 100% on first home purchasers. The deposit is a huge factor in preventing first home buyers entering the market, property prices will increase always over time.

Reverse the interest deductibility change that has been made. s9(2)(b)(ii) [redacted] I'm sick of being the scapegoat for labour's failure to address the so called "housing problem".

s9(2)(a) [redacted]

From: Chartax Accountancy
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Monday, 14 June 2021 1:10:22 PM

The Government's policy on interest limitation is against the conceptual gist of **taxation philosophy** of tax deductibility where expenses are incurred for earning taxable incomes (irrespective of their reasons for achieving their housing objectives).

Hence, students of taxation will be taught to learn selective expense deductibility to depart from the long-held tradition.

Looking around, buildings in progress are everywhere so much so building materials are resulted in short supply. Eventually, there would be empty houses and yet no available properties for the poor tenants (because of fewer investors for property). If they are going to reverse their policies by then, the existing investors have already lost too much moneys in taxes. And this could happen when the National Party comes into power.

Recommendations: It could be more sensible to release more land couple with regulating Council's high costs for new buildings, especially those imposed for sub-divisions so as to bring the costs down. Supply and demand is the key to stabilise prices to be seen as fair.

s9(2)(a)

Sent from Mail for Windows 10

From: s9(2)(a) [redacted]
To: Policy Webmaster
Subject: "Design of the interest limitation rule and additional bright-line rules"
Date: Monday, 14 June 2021 3:05:24 PM

Kia Ora,

s9(2)(b)(ii) [redacted]

The removal to interest deductibility which the current government is trying to implement is wrong. s9(2)(b)(ii) [redacted] This government decision is short sighted because on the one hand they are asking landlords (big & small) to treat residential investment properties as a business and on the other hand they are removing a legitimate direct business expense of interest paid on direct home loans as a direct expense, calling it a "loophole"!!?

First the government must prove that this interest deductions is not a legitimate business expense like any other business. Actually, this is a direct expense which is deductible in any circumstances and in any country in the world. We would be a laughing stock to the world.

Lastly, the government should not treat genuine hard working Kiwis who happen to be Landlords as in biased manner. As equal citizens of the country, we demand this interest deductibility should not be taken away from residential investment properties.

Regards,
s9(2)(a) [redacted]

From: s9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule....
Date: Tuesday, 15 June 2021 1:47:33 PM

To whom it may concern,

I am writing regarding the interest deductibility limitation rules that are proposed.

While I support the underlying reasoning behind this policy I believe there are many unintended consequences.

s9(2)(b)(ii) [redacted] t takes a special type of property owner to be willing to provide safe and healthy accomodation for these young people, there are definitely risks involved with these investments and there is an element of providing mentoring and wellbeing to these youngsters who are often far from their own support systems for the first time. s9(2)(b)(ii) [redacted] This is not an area where first home buyers or any "Normal" members of the population want to live and hence in my mind those providing these properties should not face the same reduction in interest deductibility as those directly competing with first home buyers.

My suggestion would be that properties that are solely rented to Tertiary students are exempt from these regulations. Maybe Student accommodation providers could be registered with the relevant tertiary institutions and this registration could feed back to IRD.

Regards

s9(2)(a) [redacted]

From: s9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Tuesday, 15 June 2021 2:09:03 PM

Hello,

Please accept my submission on the Design of the interest limitation rule and additional bright-line rules.

My only suggestion is around what is considered in-scope residential property for interest limitation, in particular (from section 2.59):

- Short-stay accommodation in a place that is not typically suitable for owner occupation

From 2.82:

Should short-stay accommodation that is not substitutable for long- term accommodation be carved out from the interest limitation rules and why?
Yes. In the discussion document, all residential properties that provide short-term accommodation are included. I can see the motivation, where you want to free up properties for first home buyers.
However, I think you should exclude residential properties that are run as businesses providing short-term accommodation, where the property is used in the same way a hotel or motel is run.
This means the property is effectively providing commercial short-term housing, and is very different to people sporadically letting out their holiday home.

This type of property (looking at section 2.12):

- provides a crucial accommodation type to the tourism market. Not all tourists want to stay in hotels or motels (wedding parties, groups travelling for events, families with young children, disabled people, people with pets).
- supports the local economy by employing cleaners, gardeners and handymen, and using local services (such as laundry, decorating, glass cleaners).

The crucial point is, this type of property:

- won't be sold to a first home buyer. It is sold as a business to a new business owner. The property is set up to service tourists full-time, not as a family home. It has a client base and the owner upon selling will want to be compensated for this.

How could this carveout be designed to avoid capturing short-stay accommodation that could be substitutable for owner-occupied housing?
The focus in the document seems to be looking for physical reasons why a residential property isn't suitable for owner occupier housing, which is fair enough.
However, you could also include commercial reasons why a property is not going to be suitable for owner occupier housing.

In terms of identifying the type of property that is not substitutable for owner occupier:

- is gst registered (meaning is paying gst, unlike long-term accommodation providers, which do not pay gst, so there is already a tax difference)
- has resource consent under the RMA to provide visitor accommodation for 365 days of the year, meaning it is being used for this purpose every day of the year

How could this carveout be designed to prevent short-stay accommodation that is substitutable for owner-occupied housing from being converted so that it is not substitutable?
Make councils throughout New Zealand set a limit on the number of 365-day short-term accommodation providers, through issuing a capped number of visitor accommodation resource consents.

How could a carveout be designed to reflect a sense of commercial scale akin to a hotel or motel?
A 365-day visitor accommodation resource consent already stipulates that if the consent is not being used for its purpose, then the resource consent is cancelled. This means, any residential property with 365-day consent, you can be sure it is used for that purpose.

Thanks you for considering my submission. You are welcome to contact me.

Regards,
s9(2)(a)

PUB-0023

From:	s9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Tuesday, 15 June 2021 6:30:40 PM

To whom it may concern

We own a new build investment property which received its ccc in Jan and we settled in Feb and have happy tenants. Under the proposed new rules, it is not classified as a new build and therefore the tax exemption doesn't apply.

The townhouse next door would have received its ccc the same day and may have sold on the 27th March and therefore the tax exemption applies.

A cut-off date from 27 March is unjust to the many who provide quality new builds to people that need to rent. Our property is less than 6 months old and according to the proposal doesn't classify as a new build.

A much fairer approach would be to apply the tax exemption to 'early owner' investment properties for a period of say 10 years regardless when the ccc was issued, spanning across in the past as well into the future. In other words, retrospectively.

For example, if I bought a new property 8 years ago and have rented it out since then, I would still be tax exempt for another 2 years before it is no longer deemed a 'new build'. If the counting starts from 27 March, there is something fundamentally wrong and unjust about this.

The government should have given a statement of its intent many months ago, so that investors could have made an informed decision.

Fundamentally, I believe that something has to be done about the inability for first home buyers to break into the market and whilst I like the idea of incentivising new build owners, I don't see how the cut-off date 27 March for tax exemption can be justified and assist the objective.

Logic tells me that the rents will go up, less rental properties will be on the market and the frenzy to buy new builds will continue to push prices up.

Thanks,
s9(2)(a)

From:	s9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Wednesday, 16 June 2021 11:09:50 AM

Hello IRD

You are welcome to contact me via return email or on s9(2)(a) to discus the points raised below, s9(2)(a)

Thank you for your discussion document and summary documents. As a specialist property accountant these changes are of enormous importance to my entire client base. It is very helpful having your fact sheets and the opportunity to discuss.

My main points and recommendations are as follows:

1) Interest deductibility on sale

It is my strongly held opinion that any ***non-deductible interest should be capitalised*** into the value of the asset; if it is not an allowable deduction against revenue then it is a capital cost of purchase and should be treated accordingly. This is something close to what you have shown as "Option D" in 5.26 onwards.

As such, if the sale of a property is taxable the interest would implicitly be deductible against this income, as the claimable cost base would include this capitalised interest. To deny this is a grotesque outcome on all accounts. Whether any subsequent overall tax loss should be ringfenced as a residential loss, ringfenced as a Bright Line loss, or (in the case of property acquired for resale) released to offset other income, is a matter that would require further consideration. My preference would be the former, as it is easier to access these losses for the standard investor with a small number of properties; penalising small investors (the majority of the market) to a greater extent than larger ones is not an equitable outcome.

In the case of a non-taxable sale it would clearly be preferable to allow the deduction of excess interest should it exceed any capital gain earned. However I note that this does not appear to be in line with stated policy objectives, and any previous losses on property sales are historically capital in nature.

I do not like to consider a future environment where the government succeeds in its aim of reducing property price inflation so there are no capital gains for investors to enjoy (whether taxed or untaxed) but they still cannot deduct their interest costs and so are taxed extremely highly (potentially greater than 100%) on overall economic profit, or even taxed on economic loss. This would be unthinkably wrong.

2) Changes to Bright Line - same economic ownership

The lack of a related-party exemption from Bright Line has been a horrendous issue in this legislation going back to 2015, but only made worse with the 2018 and 2021 changes extending the test. To tax notional gains in value between legal entities with the same underlying ownership is patently unjust. Should the government be open to a rollover relief in this instance having this change occur should be a top priority.

However, I either misunderstand or do not see the purpose of the "non-zero consideration" requirement set out in 10.31.

3) New Build Definition

The length of time that interest can be deducted on new builds must be a very lengthy period. I would prefer perpetuity, but if not then 20-30 years is probably sufficient.

There needs to be consideration for "early owners" of new build properties purchased prior to these new rules. For there to be no grandfathering is not a fair outcome at all.

This is particularly relevant for those who received CCC very recently, as these investors are in the ridiculous situation where the existing investor does not get the new build exemption but if they were to sell it to an unrelated party that purchaser would be exempt!

4) Subsequent Purchasers of New Builds

For administrative and compliance simplicity, as well as policy impact, I would strongly prefer that subsequent purchasers after the CCC cutoff **not** be included in the exemption.

This would also remove the need for consideration of the "continued investment rule" discussed in 8.22 onwards, which is a very silly idea - whether a property has ever been owned occupied is a ridiculous requirement for an investor to have to ascertain.

But if it was included, then this greatly strengthens the argument for including all historical property purchases in the exemption for the decided fixed period after CCC is issued.

5) Clarification around "main home" exemption

It is positive to see an exemption for interest to be claimed against flatmate/boarder income in the main home. It does need to be clarified whether this "main home" exemption follows the same definition as the residential ringfencing exemption of 50% private usage. If an individual has two flatmates in their home creating a position in which the property is only 45% private, is the interest exemption still available?

6) Overseas Property

Very positive to see that overseas property is proposed to be exempted. A sensible move given this has no effect on NZ housing supply, first home buyers, or tenants.

7) Partial-Business Property

The all-or-nothing approach used for Bright Line is not a sensible one for interest deductibility. It creates manifestly unfair outcomes for premises that are substantially but not primarily commercial in nature, while allowing deductions on properties with a significant but less-than-half residential component.

The calculation of commercial-vs-residential is surely already being performed in almost all cases for GST, insurances, or other expense allocation purposes. As I see it there would be little downside to allowing a partial claim along the lines of this established calculation.

8) Allowance for judgement in mixed-use-loan tracing

I agree with the approach to generally rely on the existing law. However as identified in 4.20 onwards, tracing is not always easy.

I disagree with the Apportionment option as described across the whole portfolio, as older purchases would likely have been repaid to a greater proportion than recent ones. I propose that two variants of "stacking" are used - an "apply-to-recent-first" or "apply-to-deductible-first" approach in determining whether the interest limitation rules apply. The latter being effectively the same as your existing stacking proposal.

9) Refinancing of Current Accounts

It must be made explicit whether the refinancing of a shareholder loan (whether interest bearing or not) to a third party interest-bearing loan maintains the tracing elements and deductibility status.

It is my view that the current account is indeed a loan to the company or trust, even if not explicitly documented as such.

10) High Water Mark - Revolving Credit

Thank you for including this. It appears well considered, and is an enormous relief for myself in terms of unnecessary fiddly compliance work.

11) General Comment on Timing

If there were any opportunity to do so, a delay in the implementation of the 75% change to 1 April 2022 would seem incredibly sensible. This would significantly simplify the compliance work for the FY22 financial year instead of having to investigate specific payment dates, make the message of 25% annual stepdown clearer to the public, and give the industry a bit more time to actually see the law written and put their plans in place before it is retrospectively active, given it seems unlikely to be written and passed by 1 October.

--
Regards

s9(2)(a)

AAT Accounting Services - Specialist Property Accounting

From: s9(2)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Wednesday, 16 June 2021 2:13:13 PM

Hi

I would like to make a submission on the proposed new tax laws for residential property and the exemption of new builds.

Below is a screen shot of how you propose to define both the transitional rule for the exception of properties that received CCC's after 27 March 2021 and an early owner in the 'Design of the interest limitation rule and additional bright-line rules' June 2021:

Transitional rule: exception for certain new builds with a CCC issued before 27 March 2021

8.8 The Government has decided that a transitional rule will apply for certain new builds acquired on or after 27 March 2021 that received their CCCs before 27 March 2021. For these new builds, the new build exemption will apply to an early owner provided the new build is acquired on or after 27 March 2021 and no later than 12 months after it received its CCC. See paragraph 8.14 for more information on this.

Early owners

8.10 The Government proposes that the exemption would apply to early owners of new builds. For the purposes of this discussion document, an early owner is a person who:

- acquires a new build off the plans (before a CCC is issued for the new build);
- acquires an already constructed new build no later than 12 months after the new build's CCC is issued;[29]
- adds a new build to bare land;
- adds a complex new build to land; or
- completes a commercial-residential conversion.

The two definitions are not consistent. The transitional rule should be amended to align with the definition of an early owner. If the CCC of a new house is issued within 12 months from the legislation being enacted (currently proposed to be 1 October 2021) it should be deemed to be a new build and exempt from the newly proposed interest and bright line rules. In its current form the act is unfair toward landlords who have had houses that CCC has issued between 1 October 2020 and 26 March 2021. Rental properties within this time frame comply with the definition of a new build but do not get the tax benefit due to an arbitrary date being picked for the transitional rule.

Thank you

s9(2)(a) [redacted]

CABRA
LAND & PROPERTY DEVELOPMENT

s9(2)(a) [redacted]

From: s9(2)
To: Policy Webmaster

Subject: Feedback about interest not able to claim.
Date: Wednesday, 16 June 2021 4:45:21 PM

A great way to decrease rental property ownership increase rents and increase the need to the government to own and build propty to house the homeless- you fo this while spending $2000 a week per unit on emergency housing that has become permanent housing that the tax payer is funding

I also wonder if this law change decriminates against property owners in terms if a business - you look at them as businesses in terms if all other legislation PCBU i believe you call them but now you limit these people(busibesses) to claim genuine expenses of ownership

The government have not adjusted the law to restrict all businesses to clain interest as a cost - once again like everything else happening in the property sector the government blame and penalise the property owner who have worked hard gone with out and made opportunity

I personally believe it us unlawful and a disgrace

Regards

s9(2)(a)

LJ Hooker & Harveys New Zealand ltd

s9(2)(a)

LJ Hooker Avnu, 24 Morrow Street, Newmarket, Auckland

PUB-0027

From:	s9(2) [redacted]
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Wednesday, 16 June 2021 7:00:51 PM

Deputy Commissioner
Policy & Regulatory Stewardship,

s9(2)(a) [redacted]

I bought my first mobile phone after I graduated and never went clubbing when I was at University because I wanted to save as much money to purchase my first home. [redacted] s9(2)(a) [redacted] Our first home was very very basic, no insulation and no luxuries. Our family started to grow and we sold our first home and purchased a 4 bedroom in 2015.

My wife always wanted to buy investment property and I always resisted until 2 months ago. I resisted for like 10 years because I always believed everyone in NZ should deserve to own their home and I should not be affecting their dreams. However, since I moved to NZ in 2001, I witnessed how homes were becoming unaffordable and I came to a conclusion 6 months ago that my 3 children will find it very difficult to purchase their homes like I did. As a result we purchased our first investment property 6 months ago for our kids.

I agree with extending the bright line test because we must pay tax on profits made on assets. I believe there should not be any conditions to the bright line test and should apply to all investment properties regardless of how long we hold them.

However I don't agree on your interest deductibility because you are redefining business rules. Interest is an expense and we must be allowed to treat it as an expense.

The government was saying claiming interest as an expense is a loophole but how is this loophole then justified on new builds?

Also I am against retrospective legislation. When we purchased our 1st investment property, we did our due diligence and understood the rules. Now all of a sudden these rules are going to change and it's not fair.

I can see why you are doing this but you are targeting the wrong people. I don't agree with people owning 5, 10, 20, 30 or 40 investment properties because they are not giving hard working NZ families the chance to own their own home.

These decisions are affecting families like us who are working their butts off to make a living and secure our children's future. I had high hopes when Jacinda came to power in 2017 on the back of kiwi build. So far it has become a flop and hence why we decided to purchase an investment property for our children because none of you are able to make a difference to NZ housing problems. We made the right decision 6 months ago based on the rules and now you are playing with our future.

Why can't you bring legislation to target housing hoarders rather than targeting hard working families like us? Why can't you pass laws to restrict how many homes a person or family can own depending on the number of children they have? Why can't you introduce increasing LVRs based on the number of homes we own, i.e. 1st home 5%, 2nd home 30%, 3rd home 50%, 4th home 70% and 5th home and above 90%?

Right now I am very sad and angry because you are taking away the chances for my kids to succeed. I feel these changes are personally targeting hard working families like us. Please reconsider your decision and draft laws to target the right people.

Please be kind to the real hard working NZ families.

In summary I am against,

Retrospective rules
Changes to interest deductibility rules

Regards,

s9(2)(a)

From: s9(2)(a)
To: Policy Webmaster
Subject: Interest Deductibility Changes Response
Date: Thursday, 17 June 2021 7:35:11 AM

Hi

In response to the 'discussion document' issued for the changes to interest deductibility rulings;

1. I do not understand the ruling that will change tax rental revenue instead of the previous standard blanket common sense rule of taxing net profit after interest deductions.
2. I personally have developed and held numerous properties as a 'build to rent' and still own these properties. It seems fundamentally wrong that I can be adding to the housing stock, increasing the rental supply, yet for these properties that are held (CCC issued) prior to 27 March I will be taxed on rental revenue. This is completely contradictory.
3. I have no issue for the bright line test being extended to 10 year and support this decision.

Regards

s9(2)(a)

[redacted]

[redacted]

From: s9(2) [redacted]
To: Policy Webmaster
Cc: s9(2)(a) [redacted]
Subject: RE: Changes to interest deductibility for residential property
Date: Thursday, 17 June 2021 7:55:17 AM
Attachments: image.png
image.png
image.png

To/the NZ Government, IRD, Nicola Willis,

I am a residential landlord and I provide housing to 25 residential tenancies. I 100% agree with your new tax policy. We need to apply these additional taxes to help cool the market.

In fact, you should tax residential landlords and speculators even more.

However, there should be certain classes of residential property that should be exempt such as Mulit-Family blocks of flats..

21 of the tenancies I provide are large residential Multi-Family blocks of flats.

I own a block 8,7,6 residential flats. See images attached below.

- All units are on the same title. This means that they can never be sold individually.
- To acquire these types of properties, Banks consider them commercial. They require a deposit of at least 30-40% always as banks see them as high risk.
- The loan is also a commercial loan where interest rates are at least 2-3% more than a standard residential loan.
- As you can see from the images, No first home buyer would ever buy a property like this.
- In the US, they are going through a very similar housing boom. They will impose very similar policies to the New Zealand, however they have separate Mutli-Family Asset Class that is exempt for any properties that have 4 or more units.
- Depreciation of this type of asset should also be allowed.

Blocks of flats provide affordable housing for those in need as rents are considerably less then a standard single-family house. s9(2)(a) [redacted]

The government needs to provide exemption for Residential Multi-Family Blocks of flats with over 4 Units to allow landlords like myself help provide housing for the people that would most likely never be able to afford a house.

With the new Tax-Laws, the income generated will be reduced by 66%, making it no longer affordable to purchase these types of properties.

Thank you for allowing me to voice my opinion.

Feel free to contact me if you would like to discuss this further.

s9(2)(a) [redacted]
Oracle Property Investments ltd
s9(2)(a) [redacted]

s9(2)(a) [redacted]

s9(2)(b)(ii)

[redacted]

From: s9(2)(a)
To: s9(2)(a)
Cc: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 17 June 2021 3:42:28 PM
Attachments: s9(2)(a)

Dear Hon Parker

Thanks for your reply, copy attached, where you note that the brightline rules for the sale of residential property have been designed to provide a consistent and objective approach, and that any further concessions for individual circumstances would result in increased compliance costs and could open the system to abuse.

The consultation document just released comprising more than 140 pages already indicates a lack of consistency and objectivity and includes a list of concessions longer than your arm that already significantly increases compliance costs and opens the system to abuse.

I am hopeful that you will have seen the media stories highlighting the negative impact on any number of individuals and couples that only own one residential property, being the key area of disadvantage that my original correspondence focused upon.

I again urge the Government to consider making a change to the property investment brightline test to exclude those individuals that only own one residential property, irrespective of whether they live in it.

I cannot accept that such a change would reduce consistency or objectivity, rather the opposite would apply, nor would such a change add materially to compliance costs nor open the system to material abuse.

I have copied this e-mail containing this suggestion to the IRD as my submission on the consultation paper. If published as part of submission release, please redact my contact details.

Regards
s9(2)(a)

[redacted]

[redacted]

From: D Parker (MIN) s9(2)(a)
Sent: Monday, 14 June 2021 4:36 PM

To: s9(2)(a)
Subject: Letter from Minister Parker

Dear s9(2)(a)

Please find attached a response to your email dated 15 May 2021.

Kind regards

s9(2)(a)

Office of Hon David Parker

Office of Hon David Parker MP | Attorney-General | Minister for the Environment | Minister for Oceans and Fisheries | Minister of Revenue | Associate Minister of Finance

Authorised by Hon David Parker MP, Parliament Buildings, Wellington

Hon David Parker BCom, LLB

Attorney-General
Minister for the Environment
Minister for Oceans and Fisheries
Minister of Revenue
Associate Minister of Finance

1 4 JUN 2021

COR1142

s9(2)(a)

Dear s9(2)(a)

Your email of 15 May 2021 to the Deputy Prime Minister, Hon Grant Robertson has been referred to me to respond to your comment on the bright-line test, which falls within my portfolio responsibilities as Minister of Revenue.

The bright-line rules for the sale of residential property have, from the start, been designed to provide a consistent and objective approach to whether income tax should be paid on gains on disposal of residential property. Any further concessions for individual circumstances would result in increased compliance costs and could open the system to abuse. Therefore, individual concessions are generally not favoured by the Government.

Recently announced housing measures, which include an extension to the bright-line rules and consultation on the details of phasing out interest deductibility, are aimed at increasing the supply of houses while further removing incentives for speculators. These measures are intended to deliver a more sustainable housing market over time.

The new rules now recognise the change of use of a main home for the bright-line test in relation to properties acquired on or after 27 March 2021, including new builds. These new rules affect the way tax is calculated if the property was not used as the owner's main home for more than 12 months at a time, within the applicable bright-line period. You may be interested in the special report on the new legislation, published 9 April 2021, which is available on Inland Revenue's tax policy website (taxpolicy.ird.govt.nz).

Yours sincerely

Hon David Parker
Minister of Revenue

Private Bag 18041, Parliament Buildings, Wellington 6160, New Zealand
+64 4 817 8710 | d.parker@ministers.govt.nz | beehive.govt.nz

PUB-0031

From: s9(2)(a) [redacted]
To: Policy Webmaster
Subject: Submission in relation to interest deductions continuation in perpetuity for renting out new built dwellings
Date: Thursday, 17 June 2021 4:18:49 PM

Greetings

My name is s9(2)(a) [redacted]

s9(2)(b)(ii) [redacted]

[redacted]

[redacted]

[redacted] $1.5 million) which will result in negative net returns and negative cash flow.

I'm sure this will stop many people in our position to develop their properties further which will make no one benefit from it, not us the investors who need income for our retirement and it will not benefit the tenants who need properties to live in.

I'm happy for the IRD to contact me by email s9(2)(a) [redacted] or by phone s9(2)(a) [redacted] and I'm happy to discuss our situation above further.

I look forward to hearing back from you.

Thank you

s9(2)(a)

From: s9(2)(a)
To: Policy Webmaster
Subject: [SUSPECT SPAM]Design of the interest limitation rule and additional bright-line rules
Date: Friday, 18 June 2021 11:59:43 AM

Hi,

Hope this email finds you in the best of your health.

I am writing to you to express my concern around an apartment that I have s9(2)(a) Unfortunately, I had to relocate for another job and career which helps IRD as well with tax revenue so I couldn't enjoy living in my first home. Luckily my friend has taken over that property as a tenant but we share more of a family sort of relation where he allowed me to live there when I lost my job at no cost.

At this point, all the rent proceeds goes towards the bank interest and other expenses and I do not get to keep anything. I am kind of attached to this property as my first ever apartment that I bought working 70 hours a day and sacrificing a lot of time of enjoyment that I could have but it is proving hard to keep up with the additional costs.

At present I paid what amounts to 2 weeks of my salary in additional tax. Going forward I am looking at paying 3 times that.
I have not raised my rent in 3 years as he is my friend. At this stage I wouldn't like to sell the house to make him look elsewhere as he had changed a few houses in the past and it is an enjoyable exercise to find a place to call home neither I can sustain this additional cost at mid age of my life to sacrifice more to have a good life.

I acknowledge housing sector needs reforms and had I known I wouldn't have bought a house to begin with. I would request to exempt the current owners from interest deductibility. It is quite fair for me to pay tax on the income in my pocket through rent but that may take years to achieve.

Also, I do not want to raise rent putting more burden on my friend or anyone else lives there like other investors have.

Kind regards

s9(2)(a)

s9(2)(a)

To:	Policy Webmaster
Subject:	Submission on the changes to tax law regarding rental houses
Date:	Friday, 18 June 2021 3:11:00 PM

My submission is very simple.

Faced with no tax deductibility for interest paid on loans I am forced to put the rent up to cover this. I have already begun this process with my rental property.

Thanks

s9(2)(a)

s9(2)(a)

To: Policy Webmaster
Subject: Housing tax changes
Date: Friday, 18 June 2021 3:15:12 PM

Dear IRD

My submission is to remove the bright line test altogether and the capital gains tax.

Any accountant or financial adviser will tell you the easiest way to balance your finances is to spend less, rather than trying to increase income. So the massive financial drain on the public purse that is the Inland Revenue Department should be streamlined to significantly reduce staff and overheads. Do you really need a department head that earns the better part of $1m per year? Do you need thousands of overpaid employees who still can't seem to be able to do their job properly (see recent media reports on people being incorrectly advised by IRD on which tax code to use)?

The annual state sector leadership remuneration report makes for sorry reading at the excessive waste of tax payer's money. ALL public sector (government, state funded education providers, the 78 councils, and hospitals etc) employees should have their salaries capped at $250k - with no exceptions except for the Prime Minister's job.

This would generate so much tax savings the bright line test and capital gains taxes could be kicked into oblivion.

Regards
s9(2)(a)

PUB-0035

s9(2)(a) [redacted]

To: Policy Webmaster
Subject: removal of interest deductibility on existing rental properties
Date: Friday, 18 June 2021 3:15:39 PM

Hello Policy

I am so against the removal of interest deductibility on existing rental homes.
This is dreadful tax policy and is against the understanding of a fair tax base in NZ.
IRD should be fair and should work to not switch off the NZ taxpayer base.

NZ needs rental homes, needs the private sector to provide rental homes, needs NZers to save towards their retirement and not just be dependant on the state.

This policy to remove interest deductibility fails on all of the about accounts.

If you enact this, do not expect productive NZers to be onside with you.

Regards

s9(2)(a) [redacted]

s9(2)(a)

To:	Policy Webmaster
Subject:	Labour investment housing reforms submission
Date:	Sunday, 20 June 2021 10:19:42 AM

Hi

With the changes to investment property the government is proposing and has implemented doesn't help increase the housing stock at all, in fact it is reducing it. Due to the removal of the 90 day vacate with no reason clause and the removal of claiming interest as an expense on existing rentals property investors are leaving the market in droves. This is the opposite to increasing supply! It's a well known fact that private investors provide 75% to 85% of the rental stock so why would you want to penalise this sector?

Add to that the shortage of land, builders and building materials the shortage of rental properties is not going away any time soon.

When buying an investment property our affordability calculations are done based on current and pending legislation. There were no murmurings that the government was exploring removing interest as a claimable expense. If this had been out there people like ourselves would have had a fairer chance of taking this into consideration when doing our affordability calculations. Investors can't even sell without suffering the brightline test tax which also wasnt part of the affordability calculation.

I have a solution for the interest claim side of things - I think that the removal of claiming interest should only apply to new lending from 27th March and it shouldnt apply to current lending until that property is out of the brightline test phase.

Back in 2018 we could see the direction the government was going with substandard housing so we sold all our older properties to first home buyers and we only build brand new investment properties for tenants to rent now. This means they are healthy home compliant and we have increased housing supply. We are very upset we are being penalised when we are trying our hardest to be part of the solution!

This is my submission and I would like it to be seriously taken into consideration.

Yours truly

s9(2)(a)

s9(2)(a)

To: Policy Webmaster
Date: Friday, 18 June 2021 3:18:58 PM

To whom it may concern,

For me personally I own a rental property solely so my mother can have a place to live without fear of the landlord putting rents up yearly.

s9(2)(a)

The new interest deductibility rule I feel unfairly punishes me for trying to do the right thing by my family.

The original interest deductibility rule made doing this for my mother viable, now it just slaps me with a massive tax bill, I am not a wealthy person so this is a real kick in the guts for me.

I really hope this government reconsiders, as I believe most landlords will just pass this added cost onto the tennant, and this is not a good thing.

Regards

s9(2)(a)

Sent from Mail for Windows 10

s9(2)(a)

To: Policy Webmaster
Subject: Proposed investment property tax law changes submission
Date: Friday, 18 June 2021 3:25:18 PM

Hello,

We have been property investors for nearly 20 years in NZ now with buy & hold properties. We have spent significant sums renovating one old property over that time, while two others were new builds. We have worked very hard to build the portfolio up, from cleaning toilets to gardening to managing tenants & maintaining our properties properly.

We have had to take the risk of borrowing & investing in property as a way to get ahead. However at least we have known our investments are treated the same as any other for tax purposes, i.e interest is deductible as it is for a business or as proposed still for commercial property. Making this change to remove interest deductions on residential investment property only, is unfair & inconsistent with every other investment type including shares.

This will directly reduce the cash flow return on our investments, which ultimately has to be recovered so will end up in the rental costs to tenants over time. Every time there has been a tax increase on property it has by definition ended up in the rent. So this hurts the very people proposed to be helped in these changes. It also reduces the incentive for people to invest & provide rental property for others given the lower returns possible in the short term until the rents catch up over a couple of years to account for the tax increase.

In our case most of our property is multi-tenanted & not a first home buyer property at all. Effectively we are meeting the need to provide more accomodation for more people as private landlords & make a reasonable return. And as above we have invested a considerable amount to improve the property & provide a good product for tenants to live in, often to a better standard than what we have lived in.

So I am very opposed to this interest deduction change, it has not been thought through at all & will definitely create some unpleasant side effects all round. The bright line test does not worry me much as buy & hold investment is long term as we have been anyway.

--
Cheers
s9(2)(a)

s9(2)(a) [redacted]

To: Policy Webmaster
Subject: Housing tax
Date: Friday, 18 June 2021 3:28:16 PM

I have no idea why you have one rule for one business and one rule for another. If you are a landlord and you are renting out your house to a tenant you are in business. You collect rent and pay tax on your profit. So all associated costs including interest should be tax deductible. I understand this is still the case on commercial so you are targeting residential landlords only.

This is just as bad as being racist or sexist you are singling out one type of business person.

Surely you want to house people and there more you push landlords the less there will be and the more homeless people you will have to put into emergency accommodation.

Has anyone thought about what is going to happen to all the homeless people in emergency accommodation when our borders open and the hoteliers want good paying tourists and have had a guts full of low life slum tenants in their units, they will drop the government and go back to tourists. Or is the government going to keep our borders closed forever so we can home our homeless in hotels.

s9(2)(a) [redacted]
Hollie Joss Property Management Ltd
s9(2)(a) [redacted]

PUB-0040

s9(2)(a)

To:	Policy Webmaster
Subject:	housing
Date:	Friday, 18 June 2021 3:28:56 PM

The government of the day can not afford the whole housing rental market, Even the extent of state houses passing the healthy homes is minimal , From my point of view you are just making a messing of a industry that was doing well until you got in , All your policy will do is increase rents , Even the notion of the housing market increases of 0.09 percent is dreaming , cheers s9(2)(a)

s9(2)(a)

To: Policy Webmaster
Subject: HOUSING - Design of the Interest Limitation Rule and Additional Bright-line Rules
Date: Friday, 18 June 2021 3:32:43 PM
Attachments: image001.png

It is very interesting to read this discussion document.

1. ***None of the proposals will result in additional houses being built***
2. Any costs hikes to landlords will potentially result in higher rent costs to tenants
3. Even if a landlord decides to sell because of the inability of claiming interest as a cost (unlikely) – how is this going to create additional housing? Landlords provide a service and housing to those who can't afford their own home
4. Who is the biggest landlord in NZ???? THE GOVERNMENT – we know of houses being purchased by Government agencies and thereby preventing private home ownership (potentially by a 1st time home buyer)
5. GOVERNEMENT should not be allowed to purchase existing stock for housing – emphasis should be on creating new additional stock to increase the number of houses!
6. GOVERNMENT should cease providing individual homes (land with house) for those in need. Instead GOVERNMENT should concentrate on mass housing projects (apartments blocks or townhouses) – these are cheaper to build and certainly faster to provide
7. GOVERNMENT will never be able to dictate markets forces of supply vs demand UNLESS more supply is created, in which case demand slows down and pricing levels out or even drops.

We do not need to re-invent the housing wheel – look at Singapore and Europe to see that apartment or townhouse living is acceptable and NORMAL. This is the ONLY method that will reduce pressure on land availability for housing by going UP instead of lateral.

Regards

s9(2)(a)

THERE IS NO TRUE ECONOMY WITHOUT QUALITY!

VINIQUIP

Viniquip International Ltd
5 James Rochfort Place
Wineworks Complex
Twyford
Hastings
New Zealand
TEL: +64 6 8797799
FAX: +64 6 8794624
s9(2)(a)
NZ Freephone: 0800 284647
AUSTRALIA Freephone: 1800 209370
s9(2)(a)

www.viniquip.co.nz

s9(2)(a)

To: Policy Webmaster
Subject: Housing Tax Change
Date: Friday, 18 June 2021 3:34:03 PM

Hello,

Have read the Labour government's proposals I believe it is a knee-jerk reaction without thought or research.

Any persons who own and rent out houses to needy members of the community are in essence running a business. This legislative change is discriminatory against business owners in general.

I totally oppose the changes as just targeting owners for the sake of an ideology that is ill thought of and will actually hurt those who this Labour government thinks they are helping.

s9(2)(a)

Sent from my iPad

s9(2)(a) [redacted]

To: Policy Webmaster
Subject: Fwd: Interest deductibility consultation process
Date: Friday, 18 June 2021 3:34:44 PM

>
> Dear Ministers,
> Thank you for the opportunity to present our objections to the interest deductibility of rental properties.
> s9(2)(a) [redacted] We purchased an 18mth old 3brm home with at 9.25% interest. We lived frugally, and were fortunate that the market grew after an initial slump and we were able to use the equity to secure a larger home for our family. We chose to hold onto our original home, for a number of reasons,: 1. it was our first home; 2. we want to be self reliant in our retirement and not dependent on the government, and 3. we want to be able to leave something other than debt to our children. Our combined mortgage is upwards of $840000, we are not wealthy.
> We have been landlords now since 2013, s9(2)(a) [redacted] We are fair landlords, we pitch our rent just enough to cover our mortgage, rates and insurance with a buffer of just $1000 per year for damages. We live nearby our rental, run the property ourselves and are available to respond to any problems within the day. We have always had feedback that we are responsive and approachable. We pitch our rent at well below market rental. Our last open home for our current tenant reflected our more than reasonable price point. It’s a lovely home, we know, we lived there. We are proud to share that ALL of our tenants bar NONE have used our home to save for the deposit, and have purchased, and moved into their own home, directly from our property, all of them.
> With the interest no longer able to be offset the “income” from the rent we receive, we will have no choice but to pass this cost on to our tenants, we simply can not afford to cover this ourselves and raise our family with the significant increase in living costs that we are facing.
> This will mean $130 less in our tenants pocket per week, we won’t see it, it will be earmarked to go directly to the government at the end of the financial year. It will not address the home ownership statistics as the people in our home, because instead of saving for their deposit, they will instead be paying you. Instead of having 3 families in just under 8yrs (under 3yr each) move from being tenants to home ownership, they will be instead tenants for longer. This plan, in our opinion is doing everything that you say (labour government) that you want to avoid. It keeps tenants renting longer, it increases rent and makes home ownership less attainable. We have one rental. One. We are planning for our retirement, we have no plans to expand our investment portfolio, or become property developers. We enjoy meeting our tenants, forming relationships with them and seeing them move on to home ownership, something that we ourselves value. Yet, we feel as though despite our best intentions, with this new plan, either we are punished, or our tenants will be. It’s simply not fair.
> Thank you for your time
> s9(2)(a) [redacted]
>
> Sent from my iPhone

s9(2)(a) [redacted]

To: Policy Webmaster
Subject: Submission
Date: Friday, 18 June 2021 3:47:24 PM

Hi there,

My brother and I have bought an existing dwelling for our sister and her 4 children to live in. We did not have the money to buy the house so it is 100% financed on the equity of my family home. My sister could not afford to pay the cost of the mortgage so my brother and I pay $250 a week towards the property.
s9(2)(a) [redacted] as it did not meet any of the current or previous healthy homes rules. It had holes in every window frame, the floor and no heating at all. Her children were always sick and she lived there for 5 years. 2 of the children did not have a bedroom they slept in the lounge.
My sister is a solo working mother and she is in financial hardship. This house we have bought is the one good thing she has and with the new tax laws it is likely we can't afford to keep the house as my brother and I are already paying as much as we can to supplement the mortgage, insurance and rates. Too make this worse it turns out that if you don't charge market rent to a family member in your house then you can't claim the losses.
I know others in similar situations and I really can't believe this change will be positive for anyone.

Regards,
s9(2)(a) [redacted]

PUB-0045

s9(2)(a)

To: Policy Webmaster
Subject: [SPAM]
Date: Friday, 18 June 2021 4:20:35 PM

I have read the proposed tax changes and feel that it forgets a simple fact.
We buy rental property as a for profit business.This change will result in a tax on costs not a tax on profit .
As all investors we are happy to pay tax on profit .We should not be penalized and made to pay tax on costs
Thanks
s9(2)(a)

PUB-0046

s9(2)(a)

To: Policy Webmaster
Subject: A submission on the housing policy
Date: Friday, 18 June 2021 4:20:36 PM

I would like to submit on the housing policy tax changes

1) That a property even if rented that has now or in the future a loan against it due to leaky building issues, be exempt from the rule denying the claim of Interest payments. Owners of leaky buildings have suffered enough financial hardship and some owners have had to move out of the
home and rent it because it is unable to be sold as is without severe financial loss.

2) To encourage investment in new builds that, the a new build be considered new for the entire time it is owned by the first buyer. If the desire is to encourage long term rental security for tenants putting a sale by date on a new build is not the way to do it.

3) That already owned rental homes purchased prior to the date of this new tax law remain exempt from the loss of interest deduction as the owners bought them in good faith of the law as it stood at the time and should not be forced to sell the home from under the tenants feet because of this
sudden unforeseen and unfair change to their financial circumstance, nor should the owners long term retirement plans be jeopardized in this manner.

4) That the bright line be reduced back to a workable 2 years so it fits the purpose it was intended for, to catch property flippers in the CGT net, not rental investors providing homes. Nobody knows what is ahead of them in 5 to 10 years time and if they might suffer a health or financial event, this
long bright line will not encourage investment in new builds. Especially apartments, first home buyers are locked out of apartments by the banks because they only loan 80% and only on apartments over 50SQM, so without investors many apartment complexes won’t even get a bank loan to
start a build How is that going to help increase supply.

Regards

s9(2)(a)

s9(2)(a) [redacted]

To: Policy Webmaster
Subject: Tax deductions on rentals
Date: Friday, 18 June 2021 5:09:51 PM

Reverse course !!!
You are/ will be hurting the very people you say your trying to help- Renters and 1st home buyers.!! So either you know this and your the very worst & dangerous govt or if you dont know what consequences will transpire then your exceptionally naive and ignorant.

Renters: All costs you are ploughing on landlords from these tax deductions , healthy homes are huge costs etc etc etc etc etc & will be passed on to them over time. If you think they wont you are mistaken.

1st home buyers: supply decreasing , demand increasing-- effect ===> prices increasing and hence those poor 1st home buyers cant save fast enough for deposit.
s9(2)(b)(ii) [redacted]

Majority of Landlords are not your enemy. We have 2 rentals. One to a single mum with one child and other to an immigrant family of 4. We are doing utmost for them and are grinding away on the healthy homes standards. Anything breaks we fix. Landlords can help govt with the housing crisis but work with us than against us.

s9(2)(a) [redacted]

Get Outlook for Android

s9(2)(a) [redacted]

To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Friday, 18 June 2021 5:11:17 PM

Hello,

I've read the new proposal for interest limitation rule and additional bright-line rules and it seems that any houses purchased before 27 March would not be considered 'New Builds'.

s9(2)(a) [redacted].

I was surprised to see that my property would not be considered a New Build under the new rules, even though it is a New Build property. It was only finished and tenanted in March 2021. It seems very unfair not to include a property like this in new exemptions.

I would propose that any new build properties bought directly from developers settled on up to 3 years before 27 March 2021 should still be exempt from the new interest rules.

Regards
s9(2)(a) [redacted]

s9(2)(a)

Subject: Housing Tax changes
Date: Friday, 18 June 2021 5:20:04 PM

Hi team,

Housing tax changes are not fair or reasonable and make no sense. Lack of consultation and lies made while being elected should also factor in here.

I don't feel a majority of NZ think its the right thing and we live in a democracy not a dictatorship.

Thanks, s9(2)(a)

s9(2)(a) [redacted]

To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Friday, 18 June 2021 5:22:00 PM

Introduction

Good Afternoon, my name is s9(2)(a) [redacted]

Summary

The unintended consequence of "General rule: only new builds with a CCC issued on or after 27 March 2021 eligible" is that all rental properties both new build (many private new builds leased to HNZ) and investment properties may be sold over a short timeframe (1-3 years) causing significant shortages in the rental market.

Recommendation

The "General rule: only new builds with a CCC issued on or after 27 March 2021 eligible" should not be date specific as that is overly prescriptive and may have the effect of reducing rental stock of those who developed new builds for rental accommodation before 27 March 2021. The tax deductibility of interest should simply apply to all new builds that were developed for rental accommodation and in title of the person/company that developed/purchased the new build.

Also if the property is onsold to another person/business who continues as a rental property then the same rule of interest tax deductability should apply. That way you will ensure a certain amount of rental properties remain in the rental pool instead of having a potential unintended consequence of drastically reducing the rental pool of properties available in the next 1-3 years.

Discussion Questions

Page 75 What do you think of the proposed definition of new build?

Page 78 General rule: only new builds with a CCC issued on or after 27 March 2021 eligible

Page 91 Should the new build exemption apply only to early owners, or to both early owners and subsequent purchasers?

Regards

s9(2)(a) [redacted]

[redacted]

s9(2)(a)

To: Policy Webmaster
Subject: Change to the bright line
Date: Friday, 18 June 2021 5:53:50 PM

Putting my five cents worth , you are hurting our tenant. She is a young solo mum on a Benefit, we will put her rent up the maximum amount each and every opportunity we are allowed . We need to cover our costs. So much for no new taxes … you have lost 2 votes in our house .

s9(2)(a)

Sent from my iPhone

s9(2)(a) [redacted]

To:	Policy Webmaster
Subject:	OBJECTION TO NEW INTEREST DEDUCTIBILITY POLICY
Date:	Friday, 18 June 2021 6:42:46 PM
Importance:	High

Dear Sir / Madam,

Please be advised that I wish to object to the proposed in tax regime of removal of interest deductibility for retail investors in private rental properties.

I believe this is unfair given the cost of interest is a fundamental expense for all businesses and singling out retail investors, who are investing for their future is not good policy.

Thank you for duly noting my objection.

Yours sincerely
s9(2)(a) [redacted]

s9(2)(a)

To: Policy Webmaster
Subject: Rental housing
Date: Friday, 18 June 2021 7:03:33 PM

Hi I'm a landlord with a large portfolio according to your statistics. Obviously with the abolishment of not being able to deduct my interest payments like any other business operation. I am forced to sell some properties to pay down debt. Unfortunately the units are likely to be brought by private individuals which will mean less rentals available, so more renters needing emergency housing so more motel bills for the tax payers.
I suggest investors have to pay a fifty percent deposit for second and subsequent properties which most won't be able to afford hence giving the first home buyers a chance.
I don't believe the housing market will cool anytime soon as the slack is being taken up by kiwis returning home.

s9(2)(a)

s9(2)(a)

To: Policy Webmaster
Subject: See sense
Date: Friday, 18 June 2021 7:21:26 PM

Not allowing landlords write off charges is irresponsible. Seriously quite unbelievable if you think rents won’t need to go up and they’re already high enough. Think of the biggest group of landlords and why they do it. What will happen if you make it too hard or not worthwhile!!!

Sent from my iPhone

PUB-0055

s9(2)(a)

To: Policy Webmaster
Subject: Housing Tax Changes
Date: Friday, 18 June 2021 10:30:41 PM

Hello,
It is quite simple, if the housing tax changes are going ahead for rental properties it should be delayed another 2-3 years. The government cannot expect landlords to come up with $10-20,000 for healthy home changes and at the same time take away the ability of deducting interest from your tax. Is the government trying to put a stake through the hearts of landlords who all they are doing is trying to set themselves up so they don't have to live in poverty by living off the government's pension.

Regards s9(2)(a)

PUB-0056

s9(2)(a)

To: Policy Webmaster
Date: Saturday, 19 June 2021 9:32:25 AM

I don't agree with the changes to tax deductibility on interest for rentals.

Cost of building materials are exceptionally high in New Zealand and wooden buildings need alot of expensive maintenance as a wooden house only has a projected life span of fifty years.

Landlords are running a business so are expected to act professionally therefore removal of tax deductibility sends the wrong message.

The answer to our housing crisis is for Government to build more social housing.

I am shocked that Government Housing is exempt from Healthy Homes criteria for another two years. Good leadership is about setting a positive example not targeting and blaming their voters.

How the housing crisis is tackled successfully overseas is by forming a constructive partnership between Central Government, Local Government and private Landlords/Investors.

The German Government buys unused buildings and renovate them into housing and as new Landlord subsidies the rent. The achieve this without a Capital Gains Tax. It's the best way to solve poverty.

Labour blaming Landlords for Governments failed policies doesn't solve anything.

I am a longtime Labour supporter so are shocked this Government is now ignoring the advice of its own Public Services.

Kind Regards

s9(2)(a)

s9(2)(a)

To: Policy Webmaster
Subject: Housing tax changes
Date: Saturday, 19 June 2021 9:58:57 AM

This has to be a contender for the most stupid and counter-productive proposal ever put forward by a New Zealand Government.

It is immoral to not allow the deduction of interest expenses in calculating taxable income for one particular section (with many exemptions) of the economy.

It will not reduce housing costs which are set in the long run by, surprise surprise, the cost of building new units.

It will reduce the supply of rental properties which will inevitably increase rental costs. Not a lot of "kindness" for tenants.

The complexity of the proposed changes will be a gold mine for lawyers and accountants. Do you really want to do this?

I have owned a number of rental properties in the past but sold the last one a couple of years ago - thank goodness.

s9(2)(a)

s9(2)(a)

To:	Policy Webmaster
Cc:	s9(2)(a)
Subject:	Housing tax changes
Date:	Saturday, 19 June 2021 11:39:48 AM

I am greatly concerned that the government is forcing an ill-conceived complex tax agenda regarding housing that will not achieve it's stated outcome of making affordable houses available to lower income people. It is more likely to have the opposite effect – reduce the supply of rentals and increase rents.

NZ should be proud of our relatively simple tax regime – this proposed new complexity will lead to significant compliance costs as basically honest people with one or two rental properties are forced to make ends meet through tax avoidance.

I would not even consider purchasing a rental property with the proposed changes. Interest costs are precisely that -a cost which under normal business practice are treated as a cost.

Than you for your consideration.

s9(2)(a)

s9(2)(a)

To:	Policy Webmaster
Subject:	Proposed tax changes to residential rental property
Date:	Saturday, 19 June 2021 3:34:03 PM

This proposed change on top of all the other rental property changes introduced by the current government is not a wise approach, and appears to be nothing more than a knee jerk reaction that is ill conceived regarding it affect and timing.

House prices are rising but as history shows, there are cycles, this one being compounded by the consequences of Covid.

2 key issues in the housing market are the increase in house prices and the rental market availability and affordability.

The housing market pricing is driven by cost of new build vs buying existing vs availability. The govt does not seem to be looking at cost of new builds (driven by developer and supplier monopolie), is assuming all investors are driving pricing, and has failed dismally to address housing shortages.

Govt decisions so far have done nothing to improve the affordability or availability of rental houses, in fact have decisions so far have exacerbated the situation by reducing the number of available rentals and increased the cost of ownership to the investor which has to be passed on eventually.

Rental property availability is now at an all time low in my region, and given these proposed changes over the next couple of years I will be reducing the number of rentals in my portfolio so I hold no debt, along with a number of my peers.

You may argue that that will allow others to build new houses, but it will not reduce the house prices, it will increase demand in that part of the market which will just serve to reinforce the strength and profitability of developers, who are driving up the cost of building along with all the bureaucracy and restraints.
The govt does not seem to be targeting developers, only investor who typically are long term, the brightline restrictions take care of short term investors so why punish investor who are trying to help the rental and house price affordability.
When the govt makes changes it needs to leave time for the changes to take effect rather than making another change when data doesn't show significant change in a short period of time. Think about the consequences of your decision and allow time for changes to take effect.
Mortgage borrowing capacity is running out in the market so the will slow the market.

I could talk for hours on this but not even sure if my email will be read.

Stop tampering, let the market do its thing and address the root causes, supply and monopolies.

s9(2)(a)

s9(2)(a)

To: Policy Webmaster
Subject: Removal of interest claim on interest
Date: Saturday, 19 June 2021 3:43:20 PM

To whom it may concern

I think it is wrong to remove the ability to claim the interest portion on your mortgage for rental property business. This effects a hard working rental investors especially the ones with one or to properties, they have stuck their necks out, taking a risk to try and get them ahead. Most of whom are not rich but want a stress free retirement by taking on risk and stress now.
It is not a loop hole, but a legitimate business expense.
By doing this the government is knowingly putting investors under considerable stress and knowingly sending some into negative equity causing insolvency, so the government knows that it is going to make some New Zealanders broke, this is immoral and unkind.
I personally pay my fair share of tax through my rental portfolio yet I'm am to receive an income as I am working for my future, this new policy will cost me $15,000pa extra in tax, which I will have to magically make appear, I could raise rents but that would not be kind to other hard working New Zealanders, I could sell but that would reduce the rental pool, or I could go broke therefore no longer generating taxable income.
I believe the the government should be supporting rental owners not make them broke.
I urge the government to look at the big picture.

Regards

s9(2)(a)

Get Outlook for iOS

s9(2)(a) [redacted]

To: Policy Webmaster
Cc: @xxx

Subject: Interest Limitation on Rental properties
Date: Sunday, 20 June 2021 11:47:16 AM

I would like to have my voice heard on the proposed Housing Tax changes the Labour Government is proposing.

The Government, under serious pressure on house prices, is making kneejerk decisions that will hurt the people it's trying to help.

The changes to interest deductibility rules won't make housing more affordable. It will reduce the supply of rentals, push rents up, and make the rules more complicated and harder to follow.

The Labour Government previously asked Private Landlords to step up as a 'business' when applying the Healthy Homes Standards to them, and yet are refuting the 'Business' status by failing to allow a deduction for a valid business related cost.

A fundamental tax principle, of expenses being deductible when incurred in the production of assessable income, will now be contradicted.

There is no fairness in this tax policy – The IRD want to be seen as being fair and reasonable

This tax policy would create confusion, complexity and bias.

It is being imposed upon people / entities that have made business decisions based on rules currently in place, therefore a punitive policy for existing taxpayers.

The Labour Government appear to have a vendetta against investors who are trying to provide a retirement for themselves and trying to assist in providing housing for the masses, which the government are not able to do

My Thoughts

s9(2)(a) [redacted]

[redacted]

s9(2)(a)

To:	Policy Webmaster
Subject:	Housing Tax Changes
Date:	Sunday, 20 June 2021 6:31:57 PM

Thanks to the Prime Minister's cumulative tax changes and demonisation of private landlords, we have evicted our tenant of 7 years and have made the decision to sell our residential rental property.

In its stead we have spent the monies raised on purchasing a Commercial Property and the rest of the profits we have invested overseas in a safe haven.

s9(2)(a)

From: s9(2)(a)
To: Policy Webmaster
Date: Sunday, 20 June 2021 8:56:10 PM

I am posting my submission for the Labour Governments latest housing tax deductible changes.
I strongly OPOSE all of these changes.

Yours faithfully
s9(2)(a)

From: s9(2)(a)
To: Policy Webmaster
Subject: Removal of tax deductibility
Date: Monday, 21 June 2021 9:31:01 AM

This is an insane policy!!!!

All you are doing is removing property investment as a form of retirement savings for mum and dad property investors. Calling them developers is just subterfuge.

How will the Labour government look when the IRD takes Nanna and Poppa to mortgagee sale because they can no longer pay the tax on their investment property because interest rates have gone up and they can no longer claim back a legitimate expense as every other business does. At the end of the day they are providing a service. Not everyone can afford to buy a house and therefore must rent.

THIS DOES NOT FIX THE PROBLM!!!!!!!!!!!!!!!!!!!

1. Get your act together and fast track subdivision of crown land
2. Approach group builders and get them to submit plans that are **pre approved with councils** (no changes allowed to these plans, i.e no you cannot move that wall, have an extra toilet etc etc)
3. Get council to open an express window – if you submit the plans that are pre approved you are out of council with your approval in 10 working days
4. Waive or reduce building and resource consent fees, offer an incentive to build via a rebate when you receive CoC
5. If you build a rental property tax deductibility is allowed for as long as you own it

If you over tax the people who are the back bone of this country eventually they will get sick of it and not strive to do better, expand their business, employ extra people, build a rental property. They will just move to Australia as we are considering doing.

Think about this, If you earn $100 and you are in the top tax bracket and you spend that money on petrol in Auckland

39% Income tax
15% GST
10% fuel tax

Leaves the princely sum of $36

Sharpen up and think about the people who are out there working hard and trying to build a better life.

Regards,

s9(2)(a)

[redacted]

s9(2)(a)

[redacted]

From:	s9(2)
To:	Policy Webmaster
Cc:	David Seymour
Subject:	Housing loan Interest; Tax Provisions. Submission
Date:	Monday, 21 June 2021 10:12:15 AM

I wish to submit on this policy:
Note: I do not own rental property. I am a retired commercial property investor and understand this market.

- This policy is unfair. Why should only one section of the business community be targeted ?
- The problem Government is trying to address is a housing shortage which is producing excessive house prices. This legislation does not, in any way, address the shortage
- If a Government prints money the value of real assets must rise - it is basic economics 101. Hence part of the property price rise; the other part is poor local government management of planning law
- Most landlords are ‘mum and dad’ investors with only one or two rental properties, saving for their retirement. Over 80% of rental accommodation owners have only one property
- Landlords are already victimised. They will leave this market, selling their properties as normal housing. While this will make buyers happy, the ever increasing mass of people who cannot afford to buy, or who are working towards buying, will have increasing difficulty finding rental accommodation
- Rents will increase because of this policy
- The next step to take is rent control; a system which has proved significantly unsuccessful in other countries
- An issue which would put more properties on the rental and selling market is to encourage empty houses to be used. There are in excess of 40,000 empty houses in NZ. A tax on the owners of empty houses would be far more beneficial than on those owning full houses
- One of the next steps to be taken by disgruntled people unable to find rental properties is to ‘squat’ empty buildings. How will the Government and our ’nice’ PM handle this?

s9(2)(a)

From: s9(2)(a)
To: Policy Webmaster
Subject: Feedback on Housing Tax Changes
Date: Monday, 21 June 2021 5:25:42 PM

Feedback on Labour's proposed Housing tax changes:

Overall it appears rushed and I'm not convinced the proposed changes will have the desired effect. The result will be increased demand, and therefore higher price for new builds and the increased tax costs for existing rental properties will simply be passed on to tenants by landlords. Potentially less rentals also available which will further push up rental prices.

Also interested to know how the government would respond to the initial reaction of KPMG in the article below:

https://home.kpmg/nz/en/home/insights/2021/06/government-consults-on-housing-tax-detailed-design.html

KPMG state:

"We will be working through the detail of the discussion document and the impacts in greater detail over the coming weeks, but some initial thoughts.

While the additional detail is welcome, the length of the document again highlights to us the complexity of these new rules in practice.

Residential property owners will have to get their heads around tracing, apportionment, high watermark rules, rollover relief and the new build exemption. Our reaction? It is one thing to design rules, but the rules must be workable and they must be understood and complied with.

Based on our understanding of the proposed legislative track, legislation will be introduced later this year, for changes that will apply from 1 October. In effect, this means that the design of the rules could still be being worked through when taxpayers will already be subject to them. This will present challenges for provisional tax payments and record keeping, for example. To give certainty, we strongly urge the Government to defer the application date of the interest limitation rules to 1 April next year.

More generally, if the rules are not simple, particularly given the target audience, there is a real risk of non-compliance. In our view, the risk of non-compliance is further heightened given that these rules will potentially sit alongside existing restrictions (such as rental loss ring-fencing and the mixed-use asset rules). The short legislative time frame, and risk of errors as a result, could further erode compliance.

Additionally, some of the proposed detail may add to the overall sense of "unfairness" that residential property investors may already feel. For example, one of the options is that no interest deduction is allowed where a gain is subject to the bright-line test (or taxed under other land rules). This will over-tax the actual (economic) gain. Another quirk hidden in the depths of the discussion document is the potential non-application of the new build exemption where a property initially qualifies, but the early owner temporarily occupies it prior to sale. The proposal is that any subsequent purchaser will not be able to apply the new build exemption. This will have practical impacts, for example, if a person develops two properties – one to live in and the other to rent – and lives in the latter while the former is being completed. Again, this seems unfair and contrary to the new build policy.

Finally, the detailed design could have significant economic and social impacts. For example, the new build exemption may create "lock in" for the first owner and/or uncertainly for developers around the economics of new residential developments. It will be critical that these decisions do not end up undermining the intention of the policy."

Too many concerns to make this change viable in such a short timeframe.

Regards,

s9(2)(a) [redacted]

[redacted]

From: s9(2)(a)
To: Policy Webmaster
Subject: Submission on consultation document of interest limitation rule
Date: Tuesday, 22 June 2021 12:05:38 AM

Hi

I have some feedback/submission regarding the proposed changes to interest deductibility on residential investment property.

My submission focuses on boarding houses. Boarding houses accommodate a large number of high needs tenants throughout New Zealand. Many boarding house tenants suffer from alcohol dependency, drug addiction and mental health issues. I am concerned that if boarding house owners are no longer able to claim interest costs, then it's likely that some boarding houses will be sold and/or converted to non residential use, or converted to a house which no longer operates as a boarding house. Either way, there would be a large number of vulnerable tenants who would suddenly be without accommodation, and the government is already struggling to find accommodation for the current large number of vulnerable tenants. This will ultimately lead to greater costs to the government, and more importantly it will lead to greater societal issues and possibly deaths from high need and vulnerable tenants forced out of their existing safe space boarding house accommodation.

In addition, boarding houses are usually treated as a commercial property with relation to bank lending, commercial interest rates, commercial council rates, commercial insurance, and they are required to be registered for GST. An additional financial burden on boarding house tenants would be unfair.

I understand boarding houses are currently intended to be excluded from the proposed incoming rules, and I wanted to say I support that proposal, for the reasons listed above.

Regards,
s9(2)(a)

PUB-0068

From:	s9(2)(a)
To:	Policy Webmaster
Subject:	interest deductibility rules
Date:	Tuesday, 22 June 2021 9:22:48 AM

Hi there

Making a submission is not easy, it is unfortunate that policy makers make it so hard for New Zealand public to have their say.

I am making a submission regarding the proposed changes to interest deductibility for residential investment properties.

Owning residential investment property is a business and like any legal business in New Zealand interest on loans for the business should remain a deductible expense, singling out one type of business is discrimination, we are providing housing for people who choose to rent.

When we purchased our property we did not buy on emotion and pay top prices, we brought based on return on investment as it is a business and brought homes that needed to be done up, we did them up and made great safe, healthy homes for our tenants to live in. We do not compete with the first home buyer who generally want homes already refurbished and who will pay more than the property is worth based on emotion.

The proposed law change will decrease the number of rental homes available for tenants, as current landlords will sell and a lot less will purchase property to rent out; this change will also cause a lot more technical knowledge to be required for the average kiwi who wants to help the government by providing healthy housing that the government is unfortunately unable to in a timely manner and has not been able to do so for decades and numerous governments.

The proposed legislation change to interest rates deductions will not free up the property market for first home buyers and will not cool the property market and there will be less rental properties available for tenants which the government has said is not the objective of the change in legislation.

Please treat the business of property investment the same as any other legal business with the ability to be able to deduct business interest costs.

Thank you

Kind regards

s9(2)(a)

PUB-0069

From: s9(2)(a)
To: Policy Webmaster

Subject: Design of the interest limitation rule and additional bright-line rule
Date: Tuesday, 22 June 2021 10:35:50 AM

Hello,

I would like to make the following submission on the governments proposal:

1. A lot of New Zealand mum and dads have only one rental investment property which is their retirement plan. Often they manage their propertues themselves and cherish their tenants. Please do not punish these hard working kiwis who take their retirement into their own hands. If these small DIY investors are punished by the removal of interest deductibility rules then they might end up instead having to rely on the government's handouts for support in their old age. In a lot of families also parents use their rental house to rent it to their children in tough times such as separation, divorce or single parenting. Having one rental property is far from being wealthy, it's not the same as some investors who own portfolios of 10. Please make an exception for landlords who own two or less properties and allow them to continue claiming interest. If the goal is to increase housing stock, the rule can also be that interest is only deducted if the house is rented out and not kept vacant. Families with only one rental would not normally keep it vacant, but speculators with large portfolios do.
This would align with long time kiwi values of being rewarded for hard work and for taking responsibility for your own future.

2. I support the proposed rollover relief for family trusts. As the discussion document states, owners might not be able to foresee the possibility of selling a property when planning their family trust affairs. This is very true. With high divorce rates and blended families and unprecedented life events such as covid it would place an unfair burden on families if transfers to family trusts would reset the bright line and interest deductibility.

Kind regards,
s9(2)(a)

Design Of The Interest Limitation Rule And Additional Bright-Line Rules

22 June 2021

Prepared by: s9(2)(a)
Contact details: s9(2)(a)
Please feel free to contact me to discuss this submission.

Question: Are there other types of developments or activity which should be covered under this exemption?

Yes. The development exemption needs to be broadened to include recent new builds.

Overview

The discussion document states that the intention of the interest limitation is to “make the purchase of residential properties more affordable for potential owner-occupiers” (1.5), but “should not discourage new additions to the stock of housing” (1.5) “The exemption should be wide enough in scope to encompass development activity which may result in the construction of a new build” (6.3), that “the exemption will apply whether or not the person holds their property in revenue account” (6.4), and by applying the exemption “on a property basis allows it to apply to one-off developments” (6.5).

In general, any development that adds to the housing stock should be considered favorably for an exemption to the interest limitation rules, because it helps to reduce the upward pressure on housing prices.

The Scenario

The scenario that I would like to consider for this submission is one where an owner:

- purchased a property prior to 27 March 2021,
- developed that property with the CCC being issued prior to 27 March 2021,
- added additional housing units to the site,
- is still the owner of those properties, so would be considered an early owner under section 8.

And:

- the property is considered a new build under section 7 because more dwelling units have been added to the housing stock.

For the purposes of discussion, we can call these owners “existing early owners” due to the timing of the development completion being prior to 27 March 2021.
These “existing early owners” have already acted in a way that the Government is now trying to encourage property owners to act in the future.
They should not be disadvantaged.

Housing shortage is not new

The need for more housing in New Zealand is not a new problem. In many parts of the country there have been a housing shortage for many years and the subsequent lack of supply has put upward pressure on the property market for many years. Kiwibuild was an attempt to relieve this pressure by both adding to the current housing stock and providing affordable housing for first home buyers.
Property owners who have recently developed land and retained ownership of those properties (existing early owners) have helped address the under-supply problem and have reduced the burden from the Government to address this by itself. These owners should be considered favorably by the interest limitation rules because they have already done what the rules are now trying to encourage (build more houses). Allowing these properties to be included in the developer exemption would encourage their owners to consider further new build developments which would increase the housing stock further. They are experienced so are more likely to undertake another new build than a person completely new to development.

Enduring new build value

By allowing the exemption for a new build to continue for, say, 20 years suggests that the value to the housing stock exists for a significant time beyond the year of completion. Therefore, any new build property holds some new build value regardless of when it was completed.
It would therefore be fair to consider new builds completed prior to 27 March 2021 in the exemption.

Subsequent Purchasers taking priority over some Early Owners

Section 8 suggests that it could be possible for the new build exemption to apply to subsequent purchasers, and that this could be available for subsequent purchasers for 20 years depending on the decisions made around subsequent owners.
This would allow an owner that did not develop a property to claim interest where an early owner may not (due to their property being completed prior to 27 March 2021). If the exemption can be applied to a subsequent owner of a new build but not to an existing early owner, then the existing early owner would be treated less favorably even though they have been the ones who have added to the housing stock. That would be unfair.

Recommendations

The following suggestions should be implemented to provide fairness across similar owners.

1. The development exemption should apply to a new build property where:
    a. the property was completed prior to 27 March 2021, and
    b. the property would qualify as a “new build” development, and

c. the owner would be considered an early owner i.e. has had continuous ownership from the date the property was completed.

2. The interest limitation exemption should apply for the same period for existing new builds as that for new builds since they both achieve the same goal of increasing the housing stock. For example, a new build completed in 2018 should be considered a new build until 2038 (if a 20 year time frame is adopted).

From: s9(2)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Tuesday, 22 June 2021 3:53:57 PM

Hi

My advice is to not introduce this ridiculous policy. We will be increasing rent on our two properties to cover costs. We have great tenants in both, so may broker a cost-sharing arrangement with them, but rents will still rise. Along with the rest of the country who isn't on welfare, we are counting down the days until the election.

From: s9(2) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Tuesday, 22 June 2021 6:18:25 PM

Hi there

My feedback relates to interest deductibility on NEW BUILDS. I understand the Govt has indicated that, from 1 Oct 2021, owners of new builds settled after that date will enjoy 100% interest deductibility for as long as they own it. Actually I don't know if it will be for as long as its not sold. Perhaps it will be for 10 years or 5 years, I guess that's not decided yet. But for a significant time at least.

So what about **RECENTLY ACQUIRED NEW BUILDS**?

s9(2)(a) [redacted]. When the govt's new rules come in on 1 October 2021, we will have owned it for less than one year. IT'S STILL NEW!

Will our bank interest on this property remain fully deductible for as long as we own it? Or will the deductibility start decaying away over four years like other existing properties on 1st Oct 2021?

In our view, we should continue to have FULL DEDUCTIBILITY on the interest related to that purchase, since we have done exactly what the Govt wants by choosing to purchase a new build and we are still the first owners of the property. Or even if the Govt's policy is that new build owners will have a limit (eg up to 5 or 10 years) on the life of their full deductibility, then we should too. If it's 10 years, then one year is gone, we should still have 9 more years of full deductibility left!

Everything I have read so far seems to ignore the case of RECENTLY ACQUIRED NEW BUILDS. The Govt discussion paper seemed to miss it entirely and only talked about about new builds purchased after 1 Oct 2021. The implication therefore is that recent new build buyers like us will be penalised severely in comparison.

Why should we get only 1 year of full deductibility on our recently acquired new build, while somebody who settles on a new build just one year later gets full deductibility for 5/10 years or as long as they own it?

That would not be fair. Please consider the case of RECENTLY ACQUIRED NEW BUILDS.

Many thanks in advance for listening.

s9(2)(a) [redacted]

catfish CONSULTING

s9(2)(a)

From: s9(
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Tuesday, 22 June 2021 7:54:32 PM

1. We support the classification as "new build" when a dwelling is created by renovating an existing one to create 2 or more. This is only fair, as the housing stock has been increased in these circumstances.

2. We support the exemption for new builds from the interest deductibility changes.

3. With regard to subsequent owners of "new builds" we support Option 3 (all owners of a new build are exempt for a fixed period after the new build received its code compliance certificate). We suggest a period of 20 years. If the exemption only applies to 'early owners', the resale market for such new builds will be affected and this will dissuade the investment into new builds in the first place.

Regards,
s9(2)(a)

From:	s9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Tuesday, 22 June 2021 10:10:50 PM

Submission from s9(2)(a)

I am happy for officials from Inland Revenue may contact you to discuss the points raised, if required.

My submission is as follows:

1. New build definition and transitional rule recommendation

I recommend the widening of the definition of a new build and extending the transitional rule to include houses that were purchased new before 27 March 2021 and where the Code of Compliance was issued within 12 months of 27 March 2021 (i.e. received its Code of Compliance between 27 March 2020 and 27 March 2021). *Example: Will purchased a new build in September 2020 and the house received its Code of Compliance month earlier in August 2020. Will's house should be included in the definition of a new build and therefore be exempt from the interest limitation rule.*

<u>*Rational:*</u> Prior to 27 March 2021 property investors heeded the plea of the Government and concerned housing experts to invest in new builds to increase the supply of new, safe and warm rental homes that exceeded the healthy homes standards. These new builds lessen the burden on taxpayers who are paying for emergency housing for some of our people. The purchase of these new builds also frees up existing houses to be purchased by First Home Buyers. It is unfair that these investors are being punished and being treated differently to the purchasers of other new builds just because they bought days or months before the 27 March 2021 cut off date especially during a time when they were encouraged by the government and expert housing commentators to invest in new builds and not existing housing in order to increase supply and to leave existing houses for First Home Buyers. Additionally even with the phased out interest deductions, these new builds will have larger mortgages compared to many existing properties by virtue of being brand new and being recently purchased. These investors will have big mortgages and will not be able to continue to deduct interest after the phase out period. This will impact their serviceability to invest in more new builds to increase supply. The investors of these new builds are disadvantaged and being treated unfairly when they thought they were doing the **right thing** for our country to increase house supply and home our people in warm, safe and brand new homes. They should be rewarded for their efforts not marginalised. They should be thanked for their investment not heavily taxed. They are the key to unlocking the solution to the supply problems that our country faces and should be viewed as friends of the cause not foes. These new builds should **not** be treated in the same way as existing houses i.e. a 100 year old house that barely meets the healthy homes standard. It is an injustice that these new homes which are far far superior to the existing Kainga Ora stock which are being proposed to be exempt from the new interest limitation rules - that is simply unfair and wrong, it appears to be one rule for the government and another rule for others, when both are in exactly the same situation - housing kiwis.

My recommendation to widen the definition of a new build is **consistent and aligned** to the existing LVR rules which define a new build as brought new and received it's Code of Compliance within 12 months of purchase.

As mentioned above the transitional rules as currently proposed means if an investor purchases a new build after 27 March 2021 and the house received a Code of Compliance within 12 months before the 27 March 2021 - then the house is defined as a new build, however if the same investor purchased the same house on 26 March 2021 or earlier then the house it defined as existing - this is not right and too hard on some investors because they were not given notice or a heads up that the rules were being changed. I certainly know many people would not have bought it if they knew the rules would change in a few months or in some cases a few days' time. These same investors have not benefited as much from the recent capital gains compared to an existing house that had been held for several years earlier plus the mortgage on the new build will be large - this is a double whammy. This new interest limitation rule impacts on their cash flow to supply houses. These investors should be recognised and acknowledged for their contribution to our country. They should be looked after as they are a tool to assist the government in its housing endeavours. They are the converted, they are the change agents the country needs, they are the champions for increasing the supply with quality brand new rental homes. They don't need to be pushed away from existing houses as they are already investing in new builds to increase supply.

Investors who purchased existing houses after 27 March 2021 went into their purchase with the full knowledge that they could not deduct any interest, they made a deliberate investment decision, unlike those investors who bought brand new just prior to the 27 March 2021 cut off date

2. Continued investment rule recommendation

I recommend the continued investment rule should not apply as it is irrelevant because property investors can't claim an interest deduction when the property is used for personal use anyway. How will you police the rule? It is too hard and impracticable to implement the rule. I think the rule is not a good idea.

3. Early owners and subsequent owners recommendation

I recommend the new build exemption should apply to both early owners and subsequent purchasers and the application period for the exemption should be in perpetuity for the early owner if they don't sell it and a fixed period of say 20 years for subsequent purchasers.

There is currently a distortion in the market that will only get worse. Developers have placed a premium on new builds and have already increased their prices. Not allowing the continual exemption for subsequent purchasers and/or having shorter periods of say 10 years will make the situation worse.

4. Roll over relief recommendation

I support the proposed roll over relief.

5.Support for Papakainga housing

Māori are the most impoverished when it comes to social economic matters particularly housing. Māori should be asisted into all types of housing.

I recommend that all loans for Papakainga housing be exempt from the interest limitation rule and that they should be able to claim interest tax deduction for personal or investor loans for Papakainga..

Thank you

s9(2)(a)

PUB-0075

From: s9(2)
To: Policy Webmaster
Subject: [SPAM]
Date: Wednesday, 23 June 2021 1:00:22 PM

Hi

I am against the interest deductibility as it’s grossly unfair measure being used against property investors. This will create more problem fir hard working property owners and even our tenants because someone has to pay for the additional costs.

Regards
s9(2)(a)

--
Kind regards,

s9(2)(a)

From: s9(2)
To: Policy Webmaster

Subject: Design of the interest limitation rule and additional bright-line rules
Date: Wednesday, 23 June 2021 1:11:10 PM

Hello
I would like to make a submission regarding the interest limitation rule and additional bright-line rules. I do not think that adding these rules will help first home buyers. I think this because of my own situation where I own a rental in Lower Hutt where our tenants are s9(2)(a)

The bright line extension makes no difference to me, this home used to belong to my Grandparents and I will never sell it. I can see how this might deter quick-flipper traders, but we already had that covered with a shorter brightline. I don't think extending to 10 years really achieved much, except raising the risk for new investor purchases. If there's more risk they will expect more return so higher rent.

The interest limitation was in my opinion also not required, since the bank rules changed to require 40% deposit. That alone will cool, and has cooled, the market. This adds significantly to the cost of operating my rental, which I had set up to be affordable as I am not a 'speculator' but an investor, holding this house to help pay for my own retirement. This extra cost must be covered not only by me but also the tennant. In my situation you will be taking money every week from a young family while giving them nothing for it, and that is criminal. They are newly immigrated to New Zealand and are hard working people who need a fair chance to establish themselves here.

I would add that the media releases about more 'levers the government are creating to pull' are certain to spike prices further as buyers rush to beat these changes. This change was made so suddenly without consultation, this raises investment risk and creates uncertainty as now I fear more regulation, and even vilification after hearing the language coming from the prime minister and the finance minister. If the government wants, they can keep punishing me as a rental owner until I'm forced to sell, putting a young family out of their affordable rental and me out of a self-funded retirement plan. I don't see how this helps anyone but the government themselves by seizing more money and power.

I would like to see the government encourage and empower local councils to create more housing supply, at affordable prices. I would also like to see assistance for those buyers like I saw in Australia with decently sized first home buyers grants and lower deposit requirements. You will find solutions like this if you move your focus from punishment and control to assistance and facilitation.

I would also like to see the government work to strengthen the economy, so that investing in business becomes less risky. This may divert peoples investments away from housing towards other areas, taking pressure off residential homes.

Regards
s9(2)(a)

From:	s9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Wednesday, 23 June 2021 5:24:16 PM
Attachments:	image001[85].png

Hi there – after years of being told by subsequent governments both red and blue to make sure you put something away for retirement including purchasing a rental property, the current government now wants to move the goal posts which will have a massive impact on many people.

These changes appear to have been rushed and not well thought through and the only target one aspect of a multi aspect market. The logical conclusion is that most mum and dad landlords who own one or 2 rental properties will end up selling these properties as they cannot afford the additional cashflow required to keep them.

We all know interest rates are going to go up – this will put more pressure on cashflow as well as the continuing increases in Rates and Insurance – additional tax to pay on each property will drive a large number of people to sell these properties.

The government would like this to happen (or else they would not be making these changes) and they think first home buyers will purchase these properties. But a lot of these properties will not be purchased by first home buyers because they cannot get the deposit required due to the LVR rules and the fact that banks do not want to take a risk on them given the pending increases in interest rates.

Sadly these homes will most likely be purchased by people who are not first home buyers and are unlikely to be small time investors – where will the tenant live? If there are limited rentals available and they are unable to raise a deposit they will be under real pressure so what have we achieved? Of course the government has collected a bucket load more cash from tax but in reality the middle and lower class will likely be worse off rather than better off – so I guess the government will then offer more handouts as this will be a great vote grabber.

None of this will make it better to live in NZ or make homes cheaper to purchase. You must deal with many aspects of the market to make an impact on house prices – these changes will have unintended consequences that will be difficult to recover from.

Why not look at the LVR rules for first home buyers and get the government and the bank loaning the money to guarantee 15% of the deposit for 5+ years – as values go up the buyer can refinance and pay back the 15% that was backed by the government and the bank. It is important to have the bank as part of the deposit guarantee as they are a big part of our current issues. They need to be incentivised to loan to first home buyers who see saving up $200,000 as an impossible task – but they could pay this off over time.

Also why don't you ban auctions – these are just scaring people into paying more for a home than what it is worth which is pushing up prices for everyone – the only people benefiting from this is real estate agents who charge the same percentage as they did years ago yet prices have almost doubled – doesn't this seem a bit odd to you? The work has got less for them but their income has doubled and the auction process is designed to scare people into paying more.

There are many ways to try to tackle high prices – picking on people that were told to get off their butts and put something away for retirement is so short sighted and it will not make it easier for tenants or first home buyers. So in essence it is a change to tax so the government gets more tax unfairly – why not just say what it is and be honest about it?

s9(2)(a)

activate

s9(2)(a)

http://www.activatelive.com

From: s9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 24 June 2021 8:18:29 AM

Hi there

We purchased our first investment property on 26 March 2021. My husband and I are in our late 50's and have saved and saved for years to buy our first rental property.

With the new rules around interest deductibility we are now seriously considering how we can hold on to the property. s9(2)(a) I have been an at home Mum for many years and have gone without to help save for this investment property. We have a 16 year old car, don't do overseas holidays or don't have luxuries. We always factored in that we could claim the interest against our property as we saw it like my 'job' or business. To no longer be able to do that will seriously affect our ability to hold on to the rental in a city s9(2)(a). What are we to do?? I would love to see this decision reversed but somehow doubt that the government will see that this is an unfair decision and reverse it. We live in hope.

I think there are many who may feel the same and who would love, like me, to see a fair system where interest expense can be claimed against your business.

Kind regards

s9(2)(a)

From: s9([redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 24 June 2021 9:44:24 AM

Properties with two or more occupancies on a single title should be exempt from the interest deductibility rules e.g. investment flats....

1. Affordability
These properties are not sought by first first home buyers and other owner occupiers so any exemption would not affect affordability for the owner occupier market.

2. Housing supply.
Properties with two or more occupancies are a critical addition to housing supply - in terms of volume and affordability. Investors should be supported in this area to ensure the ongoing supply of these properties. If investors are discouraged to invest in this area, many of the smaller properties will likely revert to single occupancy properties, thereby reducing housing supply.

This would be easily implemented as property data records identify multiple occupancy properties.

Regards,
s9(2)(a) [redacted]

kempsweir LAWYERS

kempsweir.co.nz

Phone: +64 9 525 7711
Fax: +64 9 525 2811

Ground Floor, Building 1
Central Park
660-670 Great South Road
Greenlane, Auckland

PO Box 62-566
Auckland 1546

DX EP72013

24 June 2021

Via Email

Deputy Commissioner
Policy and Regulatory Stewardship
Inland Revenue Department
WELLINGTON

SUBMISSION ON THE DESIGN OF THE INTEREST LIMITATION RULE AND ADDITIONAL BRIGHT-LINE RULES

1. Thank you for the opportunity to make a submission in relation to the design of the interest limitation rule and additional bright-line rules.

2. The writer's submissions are in relation to chapters 6, 7 and 8. Namely, development activity and new builds. It is submitted that:

   (a) the development exemption should also apply to existing dwellings (and land) that are connected to developments involving new builds; and

   (b) the general rule for timing of new builds should apply to code compliance certificates (**CCC**) issued earlier that 27 March 2021.

Development and related activities with a connection to existing dwellings

3. It is suggested that the criteria for a qualifying development activity be widened, with respect to the second bullet point at paragraph 6.9 of the discussion document.

4. The current proposal is, in short, that a taxpayer will be entitled to claim a deduction for interest on residential property where there is development work which results in one or more dwellings which would fall under the definition of a new build (and to the extent that such interest effectively relates to the new build development work).

5. The writer is aware of numerous taxpayers who develop residential property not for resale, but instead, for long-term rental properties. For a lot of these developments, these properties have been developed around an existing dwelling. In addition, a number of these dwellings also include the taxpayer living in a new build and renting out the existing dwelling. For the purposes of this submission, this will be referred to as Scenario 1 (ie a two-lot subdivision, with the taxpayer living in the new build and renting the existing dwelling on a long-term basis).

6. The private limitation would obviously deny interest deductions in relation to the private aspects under Scenario 1 (and an apportionment would be required). Under the former rules, the remaining interest expense relating to the rental property would be deductible. Under the current proposals, however, the taxpayer would now also be denied all interest

deductions because the existing dwelling (which became the rental property) would not meet the criteria of a new build (ie a new title would issue for each lot but there would be no CCC in relation to the existing dwelling).

7. The result in Scenario 1 would appear to be inconsistent with the implicit objective of providing an exemption for development activity (and inconsistent with the main thrust of the proposals). That objective is, in short, that there should be a tax incentive for residential property activity carried on by a taxpayer that increases the supply of housing stock vis-à-vis residential property activity that does not.

8. The inconsistency is highlighted in four ways. First, the same housing supply result could have different tax treatments. In that regard, say the taxpayer in Scenario 1 decided to live in the existing dwelling and rent out the new build. If so, the taxpayer would be entitled to the interest costs relating to the new build and the private limitation would deny the private aspects relating to living in the existing dwelling. In that case, there would be the same number of new dwellings added to the housing stock (ie an additional dwelling), but partial interest expenditure would be available. For the purposes of this submission, this scenario will be referred to as Scenario 2.

9. Secondly, the rules open opportunities for tax structuring around the rules. In Scenario 2, the taxpayer might restructure and refinance the two properties by transferring both to related companies or trusts at market value. This would be financed through a mix of equity and bank funds, but 100% of the market value of the new build would be borrowed. This would have the economic effect of shifting all private debt to the new build to create a tax benefit. For completeness, this might (in some cases) be tax avoidance. But given the existing rules and the proposals, this will also include legitimate restructures as well (and the line between legitimate restructuring and tax avoidance will be grey). For completeness, it is noted that restructuring opportunities will be available via existing main home Brightline exemptions, the proposed exemption from Brightline for restructuring, that subsequent purchases of new builds may be entitled to interest deductions for new builds, and so on. It is also noted, for completeness, that the ability to legitimately restructure and not be subject to the Brightline rules is, in the writer's view, needed if the Brightline test is to be extended to 10 years. But as should be appreciated, the current proposals could result in unwanted complexity for taxpayers and added compliance for Inland Revenue.

10. Thirdly, and following on from the two points above, another scenario also shows the same housing supply result but with different tax outcomes. Say in this scenario, the taxpayer did a two-lot subdivision, demolished the existing dwelling, and built two new builds for long term rental properties. Interest deductions would be fully available, but there would be no change to the housing stock. The writer appreciates that there are benefits to a new dwelling replacing an old dwelling (ie warmer, dryer, etc), however, there are also detriments, namely, increased landfill, diverting tradespeople to working on replacement dwellings rather than additional dwellings to the housing stock. In addition, there will be marginal cases where taxpayers will be influenced on the tax cost of renting an existing dwelling with no interest deductions compared to a new build with interest deductions. It might be argued that this is the point of the proposals, but the counter to that argument is that those decisions should be in relation to new builds which are additional supply to the housing stock.

11. Lastly, interest deductions on the existing dwelling could incentivise increased supply of housing. In that regard, say there is a property for sale that has an existing dwelling and a sufficiently large section that could be subdivided. For the purposes of the argument, assume that this is, say, an 800 square metre section in Auckland suited to infill housing rather than a property which only developers are interested in. In the scenario, there are three people looking to buy the property – a homeowner, an investor with no intention to develop and an investor who wants to add one dwelling and hold both as long-term rental properties. If either of the first two people purchase, there will be no added supply of houses. It is only the last person who will add more dwellings to the housing stock. So, for that reason, it would seem appropriate to provide the incentive of interest deductibility on the whole development. For completeness, it is noted that this is technically not adding an incentive but merely not disincentivising that taxpayer by the current proposals. In addition, it is also noted that allowing this also for residential property investors who have existing properties that will shortly lose interest deductibility, this may prompt those investors to do infill developments of their properties (if possible).

12. The solution to this issue is quite simple. That is, the criteria of what constitutes development activity under this exemption should extend to existing dwellings and related land where they are part of the same development which results in one or more new builds (as defined).

New builds and timing

13. This submission is mostly in relation to chapter 8. The submission is that, for a matter of fairness and avoiding arbitrariness, the general rule in paragraphs 8.6 and 8.7 should relate to CCCs issued from an earlier period.

14. This is best explained by a comparison of two taxpayers. Taxpayer 1 is "Will" in example 23. As noted in that example, Will can rely on the new build exemption. Taxpayer 2, Jill, is in the exact same situation as Will, in fact, she purchasers from the same developer in the same development. However, for Jill, the developer managed to receive the CCC for her new build on 26 March 2021. The result for Jill is that she cannot rely on the new build exemption.

15. The result above, simply put, is unfair and arbitrary. Both Will and Jill are carrying on the activity which the Government wishes to incentivise, namely purchasing new builds, but a day's difference would have a significant detrimental tax outcome for Jill but not Will.

16. If the exemption were to apply to CCCs issued at a much earlier period, the obvious question is: "how far back should it go?". Again, it is appreciated that any date will, to some extent, be arbitrary. However, allowing this exemption to cover more properties where the CCCs issued in the last, say several years, would seem more appropriate. This is because such properties and taxpayers were carrying on the activity which the Government wishes to be carried on. The submission is therefore that the general rule in paragraphs 8.6 and 8.7 dates to an earlier period, for example, replacing 2021 with 2016 in the general rule (or some other pre-2021 year).

General Comment

17. It is noted that the proposals radically alter a basic tenent of taxation. That is, that non-capital expenditure incurred by a taxpayer to derive taxable income should be deductible. Given this, the submissions above should not be viewed as a request to be exempted from a tax or providing a new benefit on a taxpayer, but instead, a request that this basic tenent of taxation will continue to apply to a wider group of taxpayers and their activity than what is currently proposed.

Next step

18. The writer is happy to be contacted to discuss the above.

19. Lastly, this submission is personal to the writer and is not to be construed as representing the views or opinions of Kemps Weir Lawyers.

Yours faithfully

s9(2)(a)

[redacted]

From:	s9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Thursday, 24 June 2021 6:05:28 PM

The Government purpose is to stop speculators from buying houses which may be suitable for first home buyers and reselling them at a higher price for profit, therefore in theory competing with first home buyers and pushing up prices.

The flaw in the current proposal is that it makes no distinction between market speculators buying stand alone houses to resell for profit, and investors who buy properties to hold for the long term for the cash flow income they provide. It also makes no distinction between speculators and people who add value and increase the supply of saleable houses by buying run down unsaleable properties and improving them to make them attractive for sale. Thereby increasing the housing pool available to perhaps first home buyers and others.

This runs the risk of reducing the overall supply of houses available for sale and also reducing the supply of properties available for rent without increasing the number of houses available for sale to first home buyers.

Options:
Include blocks of flats and blocks of apartments and multi-tenancy properties in with Commercial accommodation e.g. hotels motels and boarding houses. First home buyers will not buy these types of properties anyway. Many of these types of properties are older large houses which have been divided up into separate dwelling units, maybe three, four or more.

These types of properties are often in inner city suburbs and attractive to wealthy individuals as single family homes, so removing interest deductibility means there is a high risk current investor owners will convert them back to single dwellings instead of multi tenancy. This will reduce the supply of rental units available, but benefit the owners because they will get a higher selling price by converting it to a single dwelling. Because these types of property may no longer be viable to rent, if the interest cannot be deducted from income, as would be the case with any other business, this will become the most attractive option therefore reducing supply of rental accommodation.

Include properties improved and renovated for resale in the development exemption. People who buy rundown houses, or houses that have other problems that make them unattractive to the market, are increasing the pool of available houses to first home buyers, and others, so are an important part of the supply of houses for sale. They should therefore be able to deduct interest costs as an expense from the difference between cost price and sale price which they pay tax on.

Allowing for these two options will help to prevent unintended distortions caused by the new rules.

PUB-0082

From: s9(2)(a)
To: Policy Webmaster
Subject: "Design of the interest limitation rule and additional bright-line rules"
Date: Friday, 25 June 2021 2:51:10 PM

---

s9(2)(a) and I have either been in my own business, or renting properties, for more than fifty years now. Throughout my life-time I have had many mortgages and bank loans to support my business activities. The interest on these many loans has always been tax deductible as it constituted one of the many accounting procedures to carry out normal business. Hence, I find the suggestion of the Government's ideas to disallow tax deductibility on Residential Rental properties to be illegal and discriminatory against residential landlords who are supplying much needed accommodation, especially under these difficult times. I therefore strongly oppose the Government's idea of not allowing interest on money borrowed for the purchase of residential properties to be a tax deductible item.

s9(2)(a)
[redacted]

From: s9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 27 June 2021 7:58:54 AM

Hi,

just a short observation based on the way these rules will impact a portion of those affected.

Over the last year I have added two houses the rental stock. My understanding is that one of the objectives of this legislation is increasing the availability of code compliant rental stock in New Zealand.

I achieved code compliance in Jan 2020 and April 2017. My intentions are to own these properties in the long term. This appears to prevent me being considered as an ‘Early Owner’.

In principal both of these properties would qualify for exemption from the removal of interest deductibility. The issue I wish to highlight is one of timing. Both properties appear to fall outside the timeline to be considered as qualifying.

On initial review and reflection the effect is significant for the following reason:-

1. The amount of lending is at it highest at the beginning of the investment. Therefore rental property providers who have recent CCCs but outside the time limit are potentially affected disproportionately.
2. The size of the disproportion is likely to be further accentuated by the duration of exemption that is eventually settled upon. i.e. in perpetuity or 20/30 year period likewise the rules for transfers of ownership.
3. This appears to also categorise properties completed (CCC) prior to 27 March 2021 as potentially dead rubber when marketed for sale as properties completed post this date will have the added sweetener of interest deductibility for some period of time.

Please can you consider extending the relief in some way to include rental projects completed prior to the deadline?

Kind Regards

s9(2)(a)

From: s9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 27 June 2021 12:38:46 PM

To whom it may concern

In the interest of fairness, new build interest deductibility exemptions ought to be backdated 5 years from 27 March 2021. I believe that **if you acquired a new build from 27 March 2016, then interest deductibility should be allowed**. Otherwise owners of new builds are being penalised purely because of timing and this is extremely unfair.

Regards

s9(2)(a)

Submission on the interest limitation and bright line rules

I appreciate the opportunity to provide input to the consultation document recently released for the proposed interest limitation rules. I have provided input on 5 issues summarised below (a-e) in the hope that the rules are made less complex and easier to administer and comply.

In relation to Chapter 2: Property subject to interest deductibility

a) **It is recommended an exemption is granted for multi-tenancy properties which comprise of 3 or more dwellings in conjunction with the 3 unique characteristics of: a single owner, structure and title. These fit the principles in para 2.11 and para 2.12. They are not normally attractive to and competing with owner-occupiers.**

In relation to Chapter 4: Interest Allocation

b) **It is recommended the refinancing rules permit a modified high-water mark on 27 March for revolving credit facilities and/or the option of a portfolio approach for existing loans.**

In relation to Chapter 8: New Builds

c) **It is recommended new builds prior to 27 March should be exempt and deductible in perpetuity. All new builds pre and post 27 March have added to housing supply and therefore should be treated equally and consistently to permit a level playing field. Or at a minimum a new build purchased by a first owner with CCC 5-7 years prior to 27 March should be exempt under transition provisions in recognition of adding to supply.**

d) **It is strongly recommended new builds post 27 March retain interest deductibility in perpetuity for the first owner.**

e) **It is recommended new builds post 27 March, when on-sold to subsequent owners are not deductible regardless of the timeframe.**

Please contact me should any of these matters be unclear.

a. EXEMPTION REQUESTED FOR MULT-TENANCY PROPERTIES

It is recommended an exemption is granted for multi-tenancy properties which comprise of 3 or more dwellings in conjunction with the 3 unique characteristics of: a single owner, structure and title. These fit the principles in para 2.11 and para 2.12. They are not normally attractive to and competing with owner-occupiers.

A multi-tenancy property is commonly referred to as a block of flats. For the purposes of an exemption, they are suggested to be defined as 3 or more dwellings in conjunction with three unique characteristics of: a single owner, single structure and single title. It is not intended that multi-tenancy properties include apartments, duplexes (semi-detached) or home and income properties which are typically on separate titles and available for owner occupiers.

Multi tenancy properties are specialised to investors. They are unlikely and difficult to be used as private owner-occupied residences. Their *physical structure and configuration are* unique in that they are configured with separate dwellings/flats within the same single structure on the same title. It is suggested multi-tenancy properties should comprise of 3 or more dwellings, in order to make a key distinction with home and income properties, where an owner occupier lives in one dwelling and may rent another typically smaller dwelling.

There are *significant barriers to convert* multi-tenancy properties for owner occupier use. Without separate unit titling and establishing a body corporate the dwellings would not be available as owner occupier units. They typically cannot be converted as of right, being subject to survey, valuation, council consents and a solicitor to separately unit title each dwelling subject to satisfactorily navigating a number of conditions. Depending on the property, council may prescribe additional conditions to bring the property up to an appropriate standard.

The costs to convert can be reasonably high and can make it uneconomic to convert, purely to recover the tax consequence of lost deductibility. And tax outcomes should not be the driver for commercial decisions.

Exempting multi tenancy properties gives investors an asset class to invest in, which is on a level playing field with other types of investment which are deductible. An exemption will further help to take investors away from competing with owner occupiers, furthering the governments objectives.

Typically they are a lot more expensive and larger properties. They typically have higher yields, so investors buy them for long term (taxable) cashflow, accordingly the interest should be deductible.

Not providing an exemption may impact on the ultimate resale value if the subsequent owner cannot deduct interest. Also, no exemption will likely increase the need to increase the rent in order to recover the additional tax to pay.

Exemptions are considered for student accommodation (halls of residence) and serviced apartments due to their specialised nature. Multi tenancy properties are equally different and merit exclusion in accordance with the government objectives.

b. INTEREST ALLOCATION – REVOLVING CREDIT, REFINANCING & PORTFOLIO OPTION

It is recommended the refinancing rules permit a modified high-water mark on 27 March for revolving credit facilities and/or the option of a portfolio approach for existing loans.

The definition and application of 'refinance' should be defined as wide as possible to cover all refinancing and change of loan scenarios, to avoid accidental loss of deductibility.

A portfolio approach (at least for existing loans) should be an option. It would be far simpler, particularly for a revolving credit facility involved in a refinance which is common.

It is not apparent if 'refinance' will include a revolving credit facility, especially without a portfolio option. The proposed 27 March high water mark restriction for a revolving credit facility does not work for refinancing, when a loan decreases and the revolving credit increases.

For example, I have just chosen to draw my revolving credit balance higher (beyond the high watermark) in order to repay a small loan. I have done so to make a lump sum repayment and progressively pay down the revolving credit using my positive cashflow and reduce debt. It is not certain if this would be included within the definition of a refinance? I have simply increased one loan and decreased another with no increase in debt overall. This is a common occurrence and aggressively reducing debt will be more so in light of these new rules.

c. NEW BUILDS PRIOR TO 27 MARCH

It is recommended new builds prior to 27 March should be exempt and deductible in perpetuity. All new builds pre and post 27 March have added to housing supply and therefore should be treated equally and consistently to permit a level playing field. Or at a minimum a new build purchased by a first owner with CCC 5-7 years prior to 27 March should be exempt under transition provisions in recognition of adding to supply.

IRD are consulting on the possibility of post 27 March new build resales being deductible, for a period of time, or in perpetuity. However the subsequent owner has not contributed to supply at all. In contrast it is more inequitable not to treat all new builds purchased direct from a developer the same, including those purchased prior to 27 March. In effect new builds prior to 27 March adding to supply are being treated the same as existing housing, which has not added to supply.

I have built or purchased direct from a developer a number of new builds over the years, which has added to housing supply and is consistent with the objectives of the new build policy. However, I will now be penalised for these new builds, purely because they were constructed prior to 27 March and interest will be non-deductible. This amounts to a retrospective change (for pre-27 March purchases) for which financing and commercial decisions have been made. Retrospective changes are against the normal principles of good tax policy. This is not an equitable tax treatment. Abatement over 4 years is not an adequate substitute or compensation. At a minimum, a transition provision should be provided, for a new build purchased by a first owner with CCC within 5-7 years prior to 27 March exempt.

For example: I recently purchased a new build in stage 1 of a development with a December 2020 CCC. No new build exemption will apply and deductibility will abate over 4 years. However, properties in stage 2, currently under construction, will enjoy the benefit of a new build exemption. They will retain full deductibility which is an inequitable tax outcome based upon the misfortune of timing. This will permit landlords with deductibility to potentially charge lower rent, being focused on after tax cashflows, and make it more difficult to compete on a level playing field.

I note it is acknowledged in para 8.21 distortionary impacts on resale value could occur in relation to the duration of interest deductibility for first and subsequent owners. More significant distortionary impacts are likely to arise between new builds pre and post 27 March under these proposed rules.

d. NEW BUILDS POST 27 MARCH - DEDUCTIBILITY IN PERPETUITY FIRST OWNER

It is recommended new builds post 27 March retain interest deductibility in perpetuity for the first owner.

If the duration of interest deductibility is limited for new builds it will reduce the incentive for investors to buy new builds in the first place and therefore defeat the stated objectives of increasing housing supply. Investors simply won't bother to purchase new builds, which typically have a lower yield. With a rising interest rate environment there is little financial benefit or reason to purchase for an interest deduction for a finite period, such as 4 years or perhaps longer.

e. NEW BUILDS POST 27 MARCH – SUBSEQUENT OWNERS AND DURATION

It is recommended new builds post 27 March, when on-sold to subsequent owners, are not deductible regardless of the timeframe.

Subsequent owners of new builds do not add to housing supply (unlike the first owner) which seems inconsistent with the government objectives. There is no retrospective element to a purchase by a subsequent owner, so it seems unfair if they receive ongoing deductibility for any time period, compared to pre-27 March owners who have interest abated over 4 years.

Quite simply the commercial outcomes are inconsistent and arguably unfair to first or subsequent owners of pre-27 March properties, if deductibility is permitted for subsequent owners of post 27 March properties regardless of the duration.

Any extended time period will permit potential distortions to market rents and house prices.

From: s9(2)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 27 June 2021 4:21:14 PM

Tēnā koe,

Please find below my submission for the interest limitation rule and additional bright-line rules.

I don't believe that adding these rules will help first home buyers.

I am a landlady and I plan to hold my property for decades as I plan to use it as a retirement fund. So as you can see, the bright line extension makes no difference to me. I can see how this might deter quick-flipper traders, but we already had that covered with a shorter brightline. I don't think extending to 10 years really achieved much, except raising the risk for new investor purchases. If there's more risk they will expect more return and this will mean higher rent.
I think that tenants are already paying very high rent and this makes it difficult for them to save for a first home.

I believe that if we as a country really wanted to help first home buyers then we should offer them no deposit contracts. Saving for deposit is very difficult when you are already paying high rents.

The interest limitation was in my opinion also not required, since the bank rules changed to require 40% deposit. That alone will cool, and has cooled, the market. This adds significantly to the cost of operating my rental, which I had set up to be affordable. It is really important to me to keep the rent as low as possible for my tenants and I'm frustrated at being forced to raise the rent to pay a tax that I don't think is necessary, or helpful.

Thank you for taking the time to read this. I do hope that you will look to experts for advice and guidance as well as reading through and considering submissions.

Ngā mihi,

s9(2)(a)

PUB-0087

Submission on –

"Design of the interest limitation rule and additional bright-line rules"

By Bluekiwi Property Consulting
s9(2)(a)

June 20 2016
Emailed to: policy.webmaster@ird.govt.nz

We certainly agree with the extension of the Bright-line Rules and actually encourage for you to go longer, even 15 or 20 years to discourage speculators and provide security for Long Term property investors, and so agree for new builds to also be exempted from the interest deductibility limitation.

Whilst we disagree with the Interest limitation rule as there is no accounting basis or legality to bring this in, we offer some advice on how to make it actually work better, to get it right, as the government intends it to as per the policy objective.

The basis of our submission is around the protection of long term investors and social housing providers to enable greater provision of housing on a long term basis, and the curtailing of speculators and short term profiteers, to further enable first home buyers to buy property at reasonable prices and for long term rental property investors to be able to do that for renters as well.

Chapter 1 and Chapter 2

1.14
We suggest that care facilities excluded under Care Facilities include "Womans Refuge" and mental health hospices and that you make this definition more wider to include all the facilities that you are intending to target. Perhaps make it more clearer by adding in something like "Houses with 10 bedrooms or more", so the definition for IRD is more obvious.
And we believe the provision of housing for social housing providers such as Accessible Properties / Monte Cecilia House, and other registered social housing providers, should be exempt.
That will assist the governments goal of increasing housing provision in those area's, and not have to rely on Emergency and Transitional housing provision which is both expensive, dangerous to people who need care, and socially irresponsible in its poor level of care.
The point is however, that a lot of this housing stock is leased to them, so any of those houses leased to Accessible Properties should also be exempt.

<u>Woman's Refuge</u>
Care and protection of woman and children, we believe an exclusion is appropriate because.

A. As per section 2.3 this is not providing residential accommodation on a long term basis, it is helping out woman and children on a short term basis.
B. As per section 2.9 the provision of accommodation is related but ancillary to the primary function of the property which is hospice and mental and physical protection of woman and children from abuse. Stays in purpose built 10 bedroom plus properties could be long term, but a 10 bedroom house is generally not substitutable for an owner occupied property.

This needs to be made clear in the legislation, as at present the wording is only medical care, and not physical care and protection.

<u>Accessible Properties (2nd largest social housing provider)</u>
Lease rental properties from private landlords to provide good quality homes and social services to people with disabilities and who need help.
https://www.accessibleproperties.co.nz/about
Chapter 2
“Questions for Submitters”

There should be no carveout for employee accommodation as this loophole will be exploited.

There should be no carveout exemption for student accommodation as this loophole will be exploited.

Everyone will then start making all standard rental houses related to employee or student accommodation, as you could nearly make a reason for anyone to be classed as one of those.
The exemptions should be for care and health housing, and social housing only.

If you are going down this route, then at least put in an additional level of requirement to mitigate the risk, saying perhaps 10 plus bedroom houses in addition to original requirements.

2.11
For Womans Refuge housing provision, determining the exclusion should be based on the use of, not the current stated key consideration of whether the property could be used as normal residential owner occupier. But if you go down that route, at least make it 10 bedroom plus. I am thinking 10 bedroom boarding house now being used by Womans Refuge.

2.18.b.
2. Boarding house should be defined more clearly.
4. Hospice and convalescent home need to be expanded in definition to include Womans Refuge or mental health provider. Need to make the definition clear to cover physical and mental protection, as well as medical care.

2.35
The carveouts in 2.18 are stated as broadly intended to cover housing units that serve purposes other than long term residential accommodation and the bulk of these are not substitutable for private owner occupation. Where they “are” substitutable, but still serving a hospice or womans refuge purpose, they should still be carved out, this needs to be made clear in the legislation.

2.39
The carveout for those in need of care, are not always easily distinguishable against private residence for owner occupiers and the use should be foremost, not the appearance. If normal residential units are being used for hospice or care or convalescent homes, and are leased in this manner, they should be exempted.
The example once again is Womans Refuge who will have a normal house with many bedrooms but also have a person on site to care and manage the care facility, and have an office on site for this purpose.

Chapter 3

As part of the government’s strong agenda of providing more needed social housing.
We suggest that all social housing provision should be exempted, any of the registered social housing providers.

As per the Community Housing Regulatory Authority division of HUD
https://chra.hud.govt.nz/

As well as Kainga Ora, providers such as Monte Cecilia house and Accessible properties, should be exempted to encourage the provision of houses by private landlords to add to the social housing stock to increase supply and reduce cost of doing so. This will allow more dwellings to be leased by these social housing providers to help Work and Income and Kainga Ora.

Whilst the providers themselves are exempt, and Kainga Ora will be as well.
You also need to realise that not all of this stock is owned by them, and the houses leased by these social housing providers should also be exempt, and that would be a clear and simple definition for IRD to enact.

Question for Submitters – point is, no other organisations, but the specific properties leased to them by private landlords should be exempted, to increase the supply and reduce the cost of, social housing.

Chapter 5

5.1
You should definitely not do this, it would be a complete waste of time even doing the whole law change and defeat the purpose.
It would be helping speculators and not true investors.
You will have shorter term traders, buying as rentals, keeping for under 10 years, not claiming interest as an expense.
And then claiming it on a sale, within that time frame, and the claiming of interest will equal the capital gain tax paid on selling.
You will encourage speculators again.
The people you need to support are the true investors, who have land, and will hold the rental stock, and create more units.
Don't encourage the buy and sell merchants who do nothing with the property, and don't maintain them well for tenants.
Just hold and do nothing to them.

Please don't encourage more speculator tax loopholes.

PUB-0088

From:	s9(2)(a)
To:	Policy Webmaster
Cc:	s9(2)(a)
Subject:	"Design of the interest limitation rule and additional bright-line rules"
Date:	Monday, 28 June 2021 12:03:20 AM

I wish to make a submission on just one point.

The exclusion of dedicated rental property (Properties with 2 or more units on the same title) from the proposed removal of interest deductibility.

I believe that any property with multiple housing units (including secondary dwellings) **on one title** should be excluded from the new legislation as commercial property is.

While the intention of the Government is to dissuade competition from investors for "first home buyer or family homes" they also need to recognise the need for more dedicated rental property specifically built to house the ever growing tenant pool who will not buy homes. Like motels, blocks of flats or multi unit properties are not designed to house single unit owner families. They are built to provide rental accommodation and should be seen as commercial premises. No home owner is going to want to buy his family a row of flats to move into. Single homes (1 dwelling 1 title) can be either a family home or an investment property and may serve both purposes over time switching back and forward based on ownership. Multi unit property does not swing in and out of the rental pool. It is long term rental stock designed and used to house tenants and if it is sold, it is to another investor who will continue to use it for it's designed purpose of housing multiple tenants.

By excluding properties with multiple units on the same title it encourages investors to build this type of stock which is not and will never be "first home buyer or single family housing".

As things stand investors will be encouraged to build new family homes to use as rentals because they need a buyer when the interest deductibility runs out. That buyer has to then be a "non investor" as investors will not want to buy second hand non deductible housing. In effect this actively discourages the building of flats or units as they will have no secondary market. This also increases the competition for and price of new build family style homes which is likely to lead to exclusion of first home buyers from this part of the market. New builds will develop a commercial price premium based on being deductible to investors and first home buyers will be limited to old housing stock or second hand new builds.

By excluding properties with 2 or more units from the new legislation it will actively encourage investors to build infill housing (secondary dwellings) on their existing stock so that their properties will remain deductible. The intensification of housing is one of the governments key desires and investors who already own land are well placed (they own land and have equity) to add more housing units if there is a good incentive to do so.

By excluding multiple unit on 1 title property from the new legislation it will help draw a line of designation between what is "rental stock" and what is general "homeowner stock". Investors will know if they wish to operate their legitimate business (with their legitimate tax deductions) they need to own "rental stock" not 3 bed family suburban homes.

Removing legitimate tax deductions from investors who own legitimate rental stock and disincentivising the market from building any more rental stock will have a very negative long term effect on the rental crisis and the amount of homelessness in NZ.

Kind regards,

s9(2)(a)

Personal Property Management Limited
“Know who’s managing your property”™
s9(2)(a)

From: s9(2)(a)
To: Public Consultation
Subject: Main home exemption when building a family home
Date: Thursday, 24 June 2021 8:36:46 AM
Attachments: image001.png

Tēnā koutou,

I think some clarity needs to be provided around the situation where a taxpayer purchases a section and builds a home on it. Clarification needs to be had around what “predominant use” means when a tax payer purchases the land, needs to build it, then moves in, then subsequently sells it.

For example:

Purchased Land	31/12/18
Build begins	30/06/19 + 6 months
Build ends, moves in	1/7/20 + 12 months
Enters an agreement to sell	30/6/21 + 12 months

Does this mean “predominant use” calculation starts from when they move in (i.e. what was the predominant use of the space at the time it was used as family home), or does it start from when they purchased the land. If it is from when they purchased the land, then the predominant use would mean not a family home, as they weren’t able to use the land to live in their family home until such time that the home was built.

There are now new rules for the 12 month buffer, seems to be predominant use based on square metre space (rather then time?), but clarity needs to be had around all of this.

Ngā mihi,

From: s9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Monday, 28 June 2021 1:54:02 PM
Attachments: s9(2)(a)

Good afternoon,

Thank you for the opportunity to submit to the above consultation.

I write on behalf of the Nelson Anglican Diocese of which I have been involved in its oversight over many years.

I have recently written to our local Member of Parliament, Rachel Boyack, setting out the precarious circumstances of those clergy who are required to live in a vicarage. Such clergy, who may be required to live in a vicarage until retirement, are disadvantaged in the purchasing of their first house through the unintended consequences of recent statute resulting in:

1. their not being permitted to utilize their KiwiSaver funds to purchase their first house as, while they intend to live in the house in due course, at the time of purchase they are not in the position to occupy the house immediately,
2. not being in the position to live immediately in their first house purchase they are required to have a 40% deposit to fund their purchase, it being deemed an investment house, and
3. the inability to offset mortgage interest against rent and therefore paying tax on a fictitious rent compounded by this effecting their Working for Families entitlement.

I request that the attachment letter to Rachel Boyack be deemed part of this submission.

Within the parameters of the above consultation as to **Design of the interest limitation rule and additional bright-line rules** we propose that Clause 2.18:

Main home means, for a person, the 1 dwelling—
(a) that is used as a residence by the person (a home); and
(b) with which the person has the greatest connection, if they have more than one home

might also include :

(c) OR is considered the main dwelling for future self-occupancy in circumstances where the owner is prevented from residing in the house while being required to reside in 'service accommodation'.

As detailed in the attachment letter, such employees include but are not limited to:

1. clergy who are required to live in a vicarage,
2. military personnel who are required to live in barracks or other service accommodation,
3. a policeman rurally located,
4. farm employees,
5. MFAT personnel posted overseas.

Thank you for considering this submission.

Yours sincerely,

s9(2)(a)

s9(2)(a) [redacted]

[redacted]

[redacted]

23 April 2021

s9(2)(a) [redacted]

By Hand.

Dear s9(2)(a) [redacted]

First house purchase by those expected to live in Service accommodation.

I have become aware that those required to live in Service accommodation are disadvantaged through what I presume to be unintended consequences.

Employees including but not limited to:

1. clergy who are required to live in a vicarage,
2. military personnel who are required to live in barracks or other accommodation,
3. a policeman on (say) Stewart Island ,
4. farm employees,
5. Mfat personnel posted overseas,

find they cannot utilize their KiwiSaver funds to purchase their first house as, while they intend to live in the house in due course, at the time of purchase they are not in the position to occupy the house immediately.

Equally, Reserve Bank rules result in such a first house purchase being deemed an investment property with the purchaser required to have 40% equity; that is, the Banks are only permitted to lend a maximum of 60% of the purchase price. While Banks are entitled to make rare exceptions, ASB Nelson advise me only two such exceptions have been made with neither in Service accommodation.

The combination of these two criteria make the purchase of a first house nearly impossible for those required to live in Service accommodation. The longer such employees leave it to purchase their first house the further behind they slip on an aspiration to be debt free by retirement.

Might I submit that an exemption be made for those in Service accommodation; that is they be treated as an occupier. Alternatively, all could be exempt provided they (including any spouse and or associated Trust) are purchasing their first house.

Thank you for your consideration of this submission Rachel.

Kind regards,

s9(2)(a)

From:	s9(2)(a)
To:	Policy Webmaster
Cc:	s9(2)(a)
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Monday, 28 June 2021 4:06:53 PM

To whom it may concern,

Thank you so much for taking the time to read this submission.

I am an investor who buys blocks of flats that are in a moderate state of disrepair and then upgrades them to be modern, comfortable and healthy.
Any rental profit is reinvested back into the property.

The cost to renovate a 2 bedroom unit runs anywhere from $30,000 to $60,000 depending on the state of disrepair.

The changes to the interest deductibility laws will affect me somewhere in the vicinity of $33,000 and will have a direct impact on whether I can upgrade the units in my portfolio that need it or not.

While much has been made about these changes putting upward pressure on tenants rent, I believe the real hardships to tenants will come in the form of reduced quality of rental residences. And I believe this reduction in quality of residence will be widespread due to landlords reduced ability to afford regular and meaningful upgrades.

Reducing investor demand within the first home buyers market is clearly one of the governments objectives, and this is entirely understandable. However, this sort of property with multiple dwellings on one title is clearly being run as a business and would never be bought as a home.
As blocks of flats are exclusively bought as a business endeavor and not as a home, there is a very strong argument for multiple dwelling sites to be classed as a business and taxed as such. These properties add nothing to the pool of houses available for homeowners to purchase.

In summary;

- The quality of rental residences will be greatly reduced due to the extra tax burden, further adding to the unhealthy living standards of many tenants
- Multiple dwelling sites should be classed as businesses as they don't reduce the pool of house available to home owners.

Thanks again for taking the time to read this submission.

I would love the opportunity to answer any queries any of you have, feel free to email or phone me any time.

Kind regards
s9(2)(a)

From: s9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Tuesday, 29 June 2021 4:14:48 PM

I wish to make a submission regarding the new interest limitation rules.

In the discussion documentation it says new builds purchased prior to 27 March 2021 will not receive the new build exemption.
However if that same property is now **sold** within 12 months of CCC that purchaser **would** get the new build exemption.

Surely this is totally wrong. How can it **NOT** be a "new build", and then when older become a "new build”.

New build exemption should include new builds with CCC issued within a year before 27 March 2021 - if you are going to have new build exemption.

Regards

s9(2)(a)

From: s9(2)(a) [redacted]
To: Policy Webmaster
Subject: RE: Submission on Design of the interest limitation rule and additional bright-line rules
Date: Wednesday, 30 June 2021 8:54:31 PM

Deputy Commissioner,

I would like to add an extra comment to my submission made yesterday (and copied below)…

Despite our investment property having a significant heritage it is NOT listed with Heritage NZ or the s9(2)(a) [redacted] I suspect this will be the case with many historic/heritage homes and buildings around New Zealand. Nevertheless, these buildings are worth saving, so being listed with Heritage NZ or a local/regional council should NOT be a requirement for an exemption to the interest-deductibility rule.

Thank you,

s9(2)(a) [redacted]

[redacted]

From: s9(2)(a) [redacted]
Sent: Tuesday, 29 June 2021 11:01 PM
To: 'x@xx<x@xx
Subject: Submission on Design of the interest limitation rule and additional bright-line rules

To: Deputy Commissioner, Policy and Regulatory Stewardship

I wish to submit some comments and recommendations regarding the interest limitation rules currently being considered.

s9(2)(b)(ii) [redacted]

I am not fundamentally opposed to the removal of interest as a deductible expense as I agree with the need to support New Zealanders' ability to buy their own home. However, I can see that such a rule will have negative consequences in some circumstances, perhaps unintended by the Government:

Many of New Zealand's historic and heritage homes and buildings may be lost if the cost of borrowings for renovations (and the non-deductibility of interest) make them simply unviable as a rental property.

s9(2)(b)(ii) [redacted]

Our investment property requires extensive maintenance simply to preserve it: external painting, guttering and downpipe improvements, borer treatment, replacement of rotten weatherboards, repointing of stonework etc. We were advised by an independent valuer that the property is not feasible as a family home due to its noisy, downtown location surrounded by other tenanted properties so it would only ***either*** become a student flat ***or*** be cleared off the section for a developer to build a modern apartment block. However, it cannot be legally tenanted, even by students, as it has no heating other than 150-year-old non-compliant fireplaces, windows that don't close properly, no mechanical ventilation in the bathroom, and many draughts. *And demolishing the building is an obvious loss to* s9(2)(a)

After considering our options, we realise that converting the house into separate apartments is the best solution. We can do this without affecting the external "streetscape" heritage character. The cost of such renovations and upgrades is huge but under current tax rules, where interest is deductible, it is worth doing. If interest becomes non-deductible, it puts the whole project, and the building, at risk. Note, we were the only people interested in purchasing the property – perhaps others saw the difficulty and risk better than we did. Also, where before only 2 people lived here, once renovated it could house up to 10 people in 4 apartments, thus creating new dwellings for more people.

The point is that there are bound to be hundreds of heritage properties all over New Zealand in a similar situation. Investors are quite possibly the only people who can save many of these historic buildings, but it has to be feasible for them to do so.

Recommendations
The IRD Summary sheet: "Development exemption" raises the issue of remediation work by someone who doesn't have a property development business, but who perhaps does substantial renovations, makes a building habitable or extends its life.

I recommend that the government add another class of exemptions to the proposed interest non-deductibility rule allowing purchasers/owners who satisfy some combination of the following criteria:

- Substantial renovations of an historic/heritage property
- Improve the property to Healthy Homes standards
- Extend the life of the historic/heritage home
- Increase the number of dwellings within the property without negatively impacting on the heritage values

I am happy for Inland Revenue officials to contact me to discuss these points.

Sincerely,

s9(2)(a)

[redacted]

PUB-0094

From: s9(
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Wednesday, 30 June 2021 12:41:04 PM

Dear sir/madam

I outrightly reject the whole idea of the proposed interest limitation rule. I am neutral on the proposed additional bright-line rules.

The idea of government intervention on what can or can't be considered an expense is wrong on many levels, and by limiting the deduction on interest for residential properties only the only extremely wealthy entities or individuals can afford to purchase.

This means the social mobility will become more restricted as the property ladder is pretty much the only chance a simple household on salaries can climb.

Simply put, having one house means a family can only can have one child, as having multiple children means they will become guaranteed renters. I for one do not work hard and buy properties to drive in BMWs or fancy electric cars that many government officials and politicians enjoy, I do it to provide my children with a house they can live comfortably.

It won't even help the poor who can't afford to buy a house, they still won't be able to buy one. It will simply make them renters for life.

I will keep it short this time, but I may have to come back with proper references on overseas examples.

Regards

s9(2)(a)

From: s9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Wednesday, 30 June 2021 4:18:01 PM
Attachments: image001.png

I respectfully object to the proposed deductions for interest expenses on rental properties will be restricted from 1 October 2021.
The government cannot provide enough rental housing for those in need, and this has been proved since the current govt was voted in with big promises of hundreds of homes to be built… which never arrived.
The Govt relies heavily on the private rental sector to provide homes for the growing number of kiwis who cannot afford to buy.
More and more rules have instead been imposed, making it less and less appealing to be a private landlord, but it has also resulted in a huge hike in rental investment sales to buyers wanting an affordable home, resulting in even less available for tenants to rent.
This initiative will shrink this pool of investors even further (on top of all the new laws and the healthy homes compliance requirements) making a bad situation even worse, with an ever decreasing rate of private landlords, which the government has proven they simply cannot bridge the current gap in the rental housing needs. Unfortunately they have created an even bigger one over the last 4 years.

s9(2)(a)

Team CHB Ltd
43 Ruataniwha Street,
Waipukurau 4200
Harcourts

From: s9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Wednesday, 30 June 2021 5:10:00 PM

---

s9(2)(b)(ii) [redacted]

Our goal was always to retire with an income from our Rental Business Portfolio, NOT to sell them for Capital Gains.

BRIGHTLINE TEST
The original test of 2 years was reasonably fair. It caught the Trader/Speculators and ensured they paid tax on their Trades.

The problem with it is that it would have also caught a small minority who sold for genuine reasons due to legitimate changing circumstances:

- Death in family
- Ill health
- Accidents
- Change of job
- Losing a job
- Changing financial circumstances
- …
- And of course, Divorce.

5 years then 10?
A LOT can change in 5 to 10 years! How many marriages last that long these days???

INTEREST DEDUCTABILITY
Interest is a legitimate business expense – for any business other than a select group of Accommodation Providers.
Presumably Hotels, Motels, Hostels, Boarding Houses and Campgrounds are still able to claim it?
In the early years of owning a rental property, particularly in the last decade, one would be fortunate to find one that gave an initial profit.
Ours were, for many years, cash flow neutral/slightly positive, with any profit plus a proportion of other income, poured back into mortgage repayments.
A lot of unpaid work doing repairs and maintenance etc with the expectation that it would pay off in the future.

I suspect that many younger Landlords may find this extra cost, on top of ring fencing rental income plus all the recent Healthy Homes requirements, blows their budget. This will result in either:

- Selling up
- Increasing rents

Neither of these 2 options help renters.
For any business increased costs require increased returns to make running the business viable.

We are in the position to play fair with our tenants regarding rent increases. Others, with large mortgages, will have to maximize the rents to make owning viable.

s9(2)(a)

From: s9(2) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rules and additional bright line rules
Date: Wednesday, 30 June 2021 7:18:59 PM

Hi

My wife and I object to the proposed interest limitation legislation

The proposed legislation does not conform to recognised business practice.

Radical legislation changes make normal forecasting impossible

My wife and I own one rental property with a substantial mortgage

We are retired living on pension

We will be forced to sell

Our long term tenants snd neighbours are a family of four.

Their children were born since they have been our tenants.

They are unable to purchase their own house

I note the multi storey terraced units often with no car carparks, a tiny amount of artificial grass selling for $750,000 are not suitable for families and
to expensive for first home buyers and are often being purchased
by landlords

s9(2)(a) [redacted]

From:	s9(2)(a) [redacted]
To:	Policy Webmaster
Cc:	s9(2)(a) [redacted]
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Wednesday, 30 June 2021 8:36:24 PM

Hello there,

I wish to voice my unhappiness with the changes to the Bright-line rule and Interest limitation rule – s9(2)(b)(ii) [redacted] The proposed changes mean that we will most likely be forced to sell our flat in the next few years, when the Interest Limitation rule pushes the percentage we might be able to claim on our tax return, down to zero.

A possible amendment to these rules, meaning that they were not applicable to people who only own one (or two) units would make a huge difference to our future. s9(2)(b)(ii) [redacted].

We would appreciate changes to the rules that eased the pressure on “small time” investors that hold the equivalent of one or two homes.

Regards,

s9(2)(a) [redacted]

PUB-0099

From:	s9(2)(a)
To:	Policy Webmaster
Cc:	s9(2)(a)
Subject:	"Design of the interest limitation rule and additional bright-line rules" submission
Date:	Wednesday, 30 June 2021 11:19:12 PM

Hi

Some feedback provided below

Feedback on Tracing Questions for submitters

- Do you agree with the proposed approach to generally rely on the existing law on tracing, except where it would cause transition issues? (Transition issues are discussed at paragraphs 4.17 to 4.40.)
- Are there other issues with applying tracing that have not been identified in this discussion document? The Government is interested in issues that are particular to interest limitation, and not issues that already exist more generally.
- Do you agree with the proposed approach to a high water mark?

Comment : This whole document is very confusing. I do want to make a comment on tracing when you have a revolving credit account. After reading this section twice, and the section on revolving credit …I have a business degree and am confused, and I feel you will not get meaningful feedback from property investors when we don't understand how this all works. When we buy a new house, or build a new house we don't magically have a 20-30% deposit. We borrow from another bank using existing equity off existing property to be the 20% deposit then take out a loan for the remaining 80%. All 100% of the new build house is borrowed money. Typically the 20% deposit comes from a revolving credit account which includes any positive cashflow from annual rents. How we are expected to easily trace the interest on this account when we may build a new house each year? Tracing all this is going to get very very messy. A suggestion is with property companies to make all interest from a revolving credit account deductable upto a level of $200k borrowings per new build property.(or 30% of the new property purchased) Noting that this will be the first loan property investors repay with surplus cashflow (as a higher bank interest rate is charged). This is simple to follow. Tracing can be documented to this as well. Forget the complicated high water mark approach.

5.1 Interest deductions for residential investment property are to be disallowed from 1 October 2021, unless the property qualifies for the development or new build exemption. The reason for this treatment is to reduce a tax advantage for property investment in that full deductions for interest have been allowed, while income from capital gains has often not been taxed. This leaves the following questions for cases where property is sold:

Comment: This statement is just not true. Property investment is a business and we pay tax on profits, just like all other businesses. Paying tax on income is absurd. Income from capital gains is not taxed in NZ. Full stop, and the Govt was voted in on the basis there will be NO Capital gains tax. What lies we are told at election time. No doubt the opposition will hold this Govt accountable come the next election.

- should a deduction for interest be allowed at the time of sale if the sale is taxable (on revenue account), as in that case all the income from investing in the property is taxed; Absolutely it should be, otherwise this is like a double whamy tax, and the tax rate should not be at the income tax rate. When selling a big asset like property and this income is added to PAYE income this will easily push income well over the 39% high tax rate in that year. It is criminal to charge such a high tax rate. The capital gains tax rate should be a set 15-20% rate. and

- is there a case for deducting some interest where the amount of interest incurred exceeds the non-taxable capital gain on sale (that is, where disallowing the interest deduction results in taxing more than actual income from the property even if the property was sold for a non-taxable capital gain)? Theres a case for deducting all the interest as this is a legitimate business expense.

6.1 The Government has agreed in principle that property developers should be provided an exemption from the interest limitation rules. This chapter will consider the scope of the development exemption and the definition of "development."

I understand why, however many a small time property investors also carriers out small developments, like removing an old house and building 2-3 town houses. As long as the small time investor who carrys out a small development is treated the same as a property developer that's fine. Although I can see problems when we get someone who is a split developer/investor. I can already see property developers ramp up prices and hold back future proposed development stages as they want their building companies to build the new properties staggered over future years. We are going to see a lot of wealthy property developers who will dictate high land prices and high home and land packages due to this whole new increased demand for new builds due to this new tax.

What do you think of the proposed definition of new build? Sounds pretty fair. Although some ambiguity around apportionment when building a new dwelling on land that already has a rental property on it.

Is there some tool that could be used to identify when a dwelling that is completely uninhabitable has been improved significantly, such that it has added to housing supply? Why not state a $$ value or % value that has been spent will classify this to be a new build. Ie if the renovation value exceeds 50% of the current house value (not land value) then this can be classed as a new build.

- Kāinga Ora also undertakes property development and building activity through its other wholly-owned subsidiary, Housing New Zealand Building Limited. These activities would likely be exempt from the interest limitation proposal under the development exemption (see chapter 6) even in the absence of an exclusion. Are there other organisations that should not be subject to the interest limitation proposal? Yes – all NZ property companies that house tenants just like Kainga Ora. All Look through property holding companies that hold property for more than 10 years. Any property holding company that offers 10 year leases to tenants, and can show a proven track record having healthy homes to rent, whether its to a WINZ paying tenant or not should not make one bit of difference. The Government needs to start playing by its own rules. The same goes for time to follow healthy homes rules.

The Government proposes that whether the new build exemption applies to residential land will generally depend on when a new build is added to the land. If a new build receives its code compliance certificate ("CCC"), indicating that a new dwelling has been added to the land, on or after 27 March 2021 then the new build exemption applies to an early owner (and potentially also subsequent purchasers, depending on what the Government decides – refer to paragraphs 8.9 to 8.21) of the land.

s9(2)(b)(ii) [redacted] I would like to think this loan could be classified as interest deductible, as they are regarded as new builds in the document.

There is so much more I would like to comment on, but I don't have time to read this and make meaningful comments, and its getting late. Especially around the effects to house prices, and around unintended consequences.
We will see investors selling a few rentals and building themselves high class personal residences, where they get to keep the gains and they don't have to put up with tenants and are constantly struggling for cashflow to build savings for retirement up. If many people start thinking the same there will be a massive shortage of rental property in future years. The name of the game is cashflow, cashflow, cashflow and the next generation of property investors will soon learn that buying an expensive brand new investment property provides poor cashflow, banks will only allow them to buy one property and when they go to sell it this will be a second hand property. Such a tax is a massive disincentive and when interest rates rise in 3-4 years there will be much hurt. Thankfully there will be a change in government in a few years.

Regards

s9(2)(a) [redacted]

PUB-0100

From:	s9(2)(a) [redacted]
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Thursday, 1 July 2021 1:24:37 AM

To whom it may concern

I wish to make a submission relating to the interest limitation rule and additional bright line rules.

The impact of the proposed interest limitation rule will impact us personally and unfortunately the increased costs of these proposed changes will most likely be passed onto our tenants.

We will increase rent and if the increase isn't enough to cover these costs will consider selling because we are not in a position to top up the property costs as well as incurring additional tax costs.

Repairs and maintenance will continue to be done but we will have to prioritise and it will put financial strain on us.

This could impact our ability to provide for ourselves in our retirement without having to rely on Government assistance and could possibly delay our retirement.

We don't oppose the bright line timeline as an investor we are not interested in flipping properties, we just want to be responsible property owners who provide a much needed and service to tenants who need a place to call home.

I do not consent to being contacted by an official regarding this submission or to provide further information.

s9(2)(a) [redacted]

[redacted] We then started looking at them as passive income for our future when we retire as we didn't want to rely on Government assistance or even assume the pension was something we might get when we reach retirement age.

The interest limitations allows us to keep healthy and well maintained homes for our tenants who have lived in our homes since we brought them. We appreciate our tenants and they look after the property as if it were their own.   We have met the healthy home standard since 2012, insulating, heating, extraction, moisture mats, making sure the fixtures and fittings were always well maintained and or fixed or replaced as needed.

The rent on both properties remained unchanged for 6 years and we still rent both for less than market rates.

We enjoy being landlords, we have great tenants and I would hate to think we would need to increase rents for people who prefer to rent and appreciate the affordability. This is especially important for one of our tenants who was vulnerable when he lost his wife suddenly and became a single parent raising his daughter on a single income. We have provided affordable accommodation, he's been able to stay on despite these challenges rather than becoming a burden on the Government and needing emergency housing or even worse having to live for months at a time in motel accommodation!! That is no way to live for these families.

We provide a mutually beneficial service as a landlord. We are not greedy, and with a severe housing shortage in this country, why would you be considering a change that will impact tenants who are not currently a burden on the government but well could be if these additional tax costs are introduced. We can't afford to subsidise these changes so our only option will be to pass these on or sell what has been their home for close to 10 years.

Yours sincerely
s9(2)(a) [redacted]

PUB-0101

From: s9(2)
To: Policy Webmaster
Subject: Consultation on Interest Deductibility
Date: Thursday, 1 July 2021 11:29:56 AM

Consultation on Interest Deductibility

Hi. I'm not sure if this is the right place to send this email.

s9(2)(a)

I'm really disappointed about these changes being proposed on Interest Deductibility. It will push us over the edge of being able to have a rental.

I left school after fifth form and started an apprenticeship, worked my guts out to get qualified and eventually get my first home. I had to do a lot of fly in fly out work, sacrificing time at home with family and friends in my early 20s just to scrape together a deposit. We saved every penny for years and were able to leverage to a rental property. It's tight enough keeping our heads above water as it stands now and this new proposed ruling seems to just punish us for trying to see a future where I can retire one day without relying on the government.

We are not wealthy investors who do this as a business.

We are a young family both working our guts out and it's disappointing that this is going to effect people like us. The rich career investors with big property portfolios can absorb this. We can't afford it.

We will have to give up and sell. Probably to some millionaire who already has 12 rentals. It's crazy. Sometimes it seems like there is no incentive to try to get ahead.

That's my two cents on it, apologies for the poor grammar, just a tradie not a scholar.

Thanks
s9(2)(a)

From: s9(2)(a)
To: Policy Webmaster
Cc: s9(2)(a)
Subject: Interest deductibility in business proposed policy submission
Date: Thursday, 1 July 2021 1:23:45 PM

To whom it may concern

There is not much to say in this space other than to conclude that if the interest deductibility in a property / accommodation business is no longer a deductible expense one can only conclude what is next ?

Farmers making to much money so we cut their ability to deduct interest?

Business making to much money across the board ?

It is Internationally accepted that where money is borrowed for the purpose of acquiring business assets for the purpose of running the business the cost of the money is a deductible item.

This newly proposed legislation does nothing for trusting the principles of this rule and any person in business in NZ needs to be very worried.

This rule does very little if anything for any one to even consider investing in property as a business.

It is an appalling piece of legislation

Regards

s9(2)(a)

PUB-0103

From:	s9(2)(a) [redacted]
To:	Policy Webmaster
Cc:	s9(2)(a) [redacted]
Subject:	RE: Design of the interest limitation rule and additional bright-line rules
Date:	Thursday, 1 July 2021 1:30:02 PM

Good Afternoon,

I would like to put forward my submission for the design of the interest limitation rule and additional bright-line rules

s9(2)(a) [redacted]

My contact details if required are at the bottom of this submission.

I would like to start with the rules around limited interest deductibility.

My husband and I purchased our first investment property in 2019 with the idea of a long hold property. This property was purchased in order to help our children into housing or to go through University without having to end up with crippling student loans on graduation. Being able to deduct the interest off this loan has helped us immensely to be able to keep the rental lower for the young family currently living in the property so has been a benefit for both ourselves and the long term tenant the property is housing.

We then purchased our second investment property in 2020, this one however was much different. My husbands mother lives in this property as she is unable to afford the rents in the city we live in on her own. Us buying this property has provided her with security of knowing she never has to move, and she doesn’t have to pay rents that are in excess of what she is earning from working.   We have managed to keep her rental payments fair and reasonably and she is safe and secure.
However, with the new ruling around interest deductibility being fazed out, this now means that either we are now paying in excess of $8,0000 per year, plus provisional tax in order to keep these people homed.

This interest restriction will put us in financial hardship, and close to having to sell one or both of these properties in order for us to be able to keep our family a float. We do not earn huge incomes, we are just merely trying to provide a better financial future for our children.

I don’t believe property investors to be the main issue to the unaffordable housing in New Zealand, I believe this has come from the “flippers”, those who come in and buy a house, do it up, and then it is back on the market a few months later. They are the ones who are making a real profit off housing.

The interest deductibility faze out, should be directed at big investors, those with more than 4 or 5 investment properties, not those of us, who have everything on the line, in order to try and provide better financial lively hoods for our families.

I have noticed with the industry that I work in, we have seen a lot of property investors selling off stock. It is great when the property is then on sold to a first home buyer, but what happens to the tenant that has been in that property? – and in most cases, they have raised their children in these homes. Where do those who want to rent for life go?.

I have no objection to the bright line rule being extended to 10years, this is purely because most property investors are investing for a long period of time. I don't believe this extension will have much of an impact, other than to those who do end up in financial hardship.

Kind Regards,

s9(2)(a)

From:	s9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Thursday, 1 July 2021 4:01:15 PM

Feedback is against interest deductibility on investment.
Tax is typically paid from cashflow (on actual profit). Under this model there is no cashflow to pay the tax without allowing for interest expense deductibility for those who are impacted. Have you modelled these changes in a market with higher interest rates? Interest deductibility is a flawed approach and places property investment (which is needed with all NZ housing issues) as a less desirable investment against every other asset class. With a tight rental market the one who will pay will be the tenant and the wealth gap will only be greater. No doubt this will be passed but with even less doubt is this will be repealed in the future. Focus on policies which encourage growth, not legislate to limit what people and businesses can do, or take away the rewards of enterprise by placing more taxes and red tape on those who are growing New Zealand.

s9(2)(a)

From: s9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule
Date: Thursday, 1 July 2021 8:10:24 PM

Dear Sir/Madam,

I am a landlord of a long term rental with long term tenants. There is a significant mortgage on the property and interest paid on the mortgage is a real and significant expense for which the rent only just covers after rates, insurance, and maintenance.

The proposed interest limitation rule, which is essentially declaring "an expense", "not an expense", will turn this rental situation into a loss making situation. What are you expecting me to do about that? I am unhappy with this. I entered into this rental business years ago with an understanding of the financial environment. The proposed interest limitation rule will completely change that financial environment. Changing the ground rules will create great uncertainty. Business needs certainty to operate. I know that Parliament is powerful, but I don't believe it can legally declare "black" to be "white".

The present government will lose any chance of my vote at the next election if this limitation rule goes ahead. Why put the pressure on landlords when it is the government not getting its act together and getting on with building affordable homes.

Yours sincerely,

s9(2)(a)

From: s9(2)
To: Policy Webmaster
Cc: s9(2)(a)
Subject: Design of the interest limitation rule and additional bright line rules
Date: Thursday, 1 July 2021 8:41:43 PM

Submission on Design of the Interest Limitation Rule and Additional Bright Line Rules.

I wish to state from the outset that Residential Landlords are providing a service in providing housing for others which this country desperately needs as part of the overall housing solution. They are genuine "Small Business Owners" producing a taxable income and as such the cost of interest is a legitimate business expense for which a tax rebate is warranted. They are NOT the enemy.

I disagree in principal with what has been done, however the political die is cast and "like it or lump it" we need to live with it, and hopefully submissions will round off some of the sharp edges.

Main Point

Provision to needed for "New Builds" in progress as at 27th March 2021 to be classified as "New Builds". This would be consistent with the stated intent; "*1.11 There will be favourable treatment for property being developed and owners of new build properties …"*

Background

My wife and I, pre 27 March 2021, recognised the need to increase housing stock in New Zealand, the shortage of rental accommodation s9(2)(a), and the requirements to meet 'Healthy Home" standards for rental properties.

Rather than buying existing housing stock which we could have done, we purposely elected to have a new rental house built on vacant land, to increase housing stock and to provide a good health home for someone, because we could.

We are retired, however we worked out that using our existing property as equity, and with current low bank interest rates we would able to facilitate the construction of a new rental property to provide someone else with a home.

We calculated that it would be neutrally geared and while it would produce very little income, neither would it be a cost to us and we would not be paying to subsidise someone else's living expenses which as pensioners we could ill afford to do. It would provide a family with a good home, meeting the need of fellow New Zealanders, and in the longer term provide an inheritance for our grandchildren.

We signed up to purchase the "New Build" property off the plans prior to 27th March 2021 with good intent in line with what the government is now actually desiring. There will be other people in a similar situation as ourselves where the 'New Build" house currently falls through the cracks with the proposed legislation, and in fairness this needs to be addressed.

The house is currently under construction at roof truss stage, has never been lived in and is still awaiting its code of compliance which will be several months away. It is a "New Build" and should be able to be treated as one, which is currently not the case.

As previously outlined, to treat New Builds signed up for prior to the 27th of March 2021 as "New Builds" would be consistent with the stated intent; "*1.11 There will be favourable treatment for property being developed and owners of new build properties …"*

Recommendation

That the following amendments and clauses be inserted;

Chapter 1 Overview of proposals and process

1.10 Non-grandparented interest is interest on debt funding the purchase of ***an existing*** property acquired on or after 27 March 2021, and drawdowns of debt which relate to the ownership or use of residential investment property on or after 27 March 2021. For non-grandparented interest, all deductions will be disallowed from 1 October 2021.

1.11 There will be favourable treatment for property being developed and owners of new build properties ***including those in progress for which a Code of Compliance has not been issued prior to 27 March 2021.***

2.61 It is proposed that interest deductions in respect of ***existing*** residential property acquired on or after 27 March 2021 would not be allowed from 1 October 2021. Interest on loans for ***existing*** property acquired before 27 March 2021 would still be able to be claimed as a deductible expense, but would be phased out over four income years. Further discussion on the proposed phase-out can be found in chapter 1.
Chapter 7 Definition of "New Build"

7.4.1 A "New Build" shall include any new building where a contract to purchase or build had been entered into prior to 27th March 2021 and for which a Code of Compliance has been issued or will be issued subsequently to that date.

I confirm that officials from Inland Revenue would be most welcome to contact me on s9(2)(a) [redacted] to discuss the points raised, if required.

I trust this submission is helpful.

Yours faithfully,

s9(2)(a) [redacted]

[redacted]

From: s9(2)(a)
To: Policy Webmaster
Subject: Submission on interest rate changes for rentals
Date: Friday, 2 July 2021 7:03:19 AM

Hi

I want to describe the reason for me having a rental and what it means to anticipate non deductibility re interest on the rental property.

The property I have is for my daughter, her husband and her 5 year old daughter. s9(2)(a) Me owning a property for them to live in provides some stabity and ongoing security re their living situation.

I am approaching retirement, aon my own and would not have the property other than to help them. I have already suffered a decrease in income due to the recent restrictions on rentals...ring fencing and penalties due to charging cheaper rent to enable my family/tenants to better manage the increasd costs associated with their health issues. The removal of tax deductabity on interest is yet another increased cost.
If this goes ahead I am unlikely to be able to afford to keep the property, this jeopardizing their living situation, health and ability to sustain an already limited, frugal l, health affected lifestyle.

I implore you to abandon the changes on interest rate deductability or at least hold them at 75%.

Sincerely

s9(2)(a)

PUB-0109

s9(2)(a) [redacted]

To: Policy Webmaster
Cc: s9(2)(a) [redacted]
Subject: "Design of the interest limitation rule and additional bright-line rules"
Date: Friday, 2 July 2021 4:54:49 PM

Good afternoon

We are probably your typical older mum (nurse) and dad (engineer) investor.

s9(2)(b)(ii) [redacted] We intend to leave the properties to our children to live in.

We are good landlords ; all 4 properties meet the healthy homes standards and most of our tenants are long term – 3-5 years. Our rents are currently at or below the median rent as per the tenancy services market rent data.

Currently the rent from the 4 properties just manages to cover our 3 mortgages, rates, insurance, water and minor repairs and maintenance. Larger items like replacement carpet/lino, heat pumps, repainting or replacement of broken appliances we have to fund ourselves.

It is a real shame that we will have no option but to pass on the costs associated with the interest limitations to our tenants. We are likely to also raise the rents annually until we are sitting closer to the top quartile for each property in anticipation of the interest rates rising and the limitation of an annual increase. The proposal will likely reduce housing affordability and lessen the opportunity for tenants to save for a deposit.

We believe that ideally interest limitation should be scrapped entirely to stop the ongoing pressure on rents.

We believe that the provision of rental accommodation is a business and like all other business's all expenses should be deductible including loan interest.

Property investors are a different breed to property speculators (flippers) and unfortunately it appears that this is not widely understood. As long term investors we don't have too much of a problem with the Brightline test **as long as** it is inflation adjusted and all improvements are deducted from the valuation.

We are considering developing one of our rental properties – from 1 house to 2 or 3 townhouses so are very interested in the New Build interest deductibility etc.

We believe

- that a new build is defined by when the CCC is issued (CCC should also be sent to IRD on issuance).
- a new build is also defined by the addition of a standalone property available for rent so includes relocatable and transportable homes, minor dwellings or single properties remodelled to become 2 or more.
- the property stays as a new build for 10 years or until it is sold by the 1st owner after the developer (IE new build status doesn't pass on to subsequent owners)
- The brightline test should be 5 years for the new build and must be inflation adjusted and all improvements are deducted from the valuation.

Kind regards

s9(2)(a) [redacted]

s9(2)(a) [redacted]

To: Policy Webmaster
Cc: s9(2)(a) [redacted]
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Saturday, 3 July 2021 10:07:58 AM

Design of the interest limitation rule

I have a number of residential rental properties.
My ownership duration ranges from the oldest at thirty years to the most recent at six years.

Inevitably, under this sort of long-term ownership, major events occur – kitchens and bathrooms need renovating, roofs need replacing, plumbing needs leak repairs, buildings need repainting. None of this is cheap, and all of it needs to be carried out quite quickly so that I can continue to safely and comfortably house the families that rent these properties.

s9(2)(b)(ii) [redacted]

However, I can now see that the intention, when these regulations have been implemented, is that if I incur this additional debt from drawing on the same loan on or after 27 March 2021, interest on that portion of the loan will not be able to be claimed as an expense from 1 October 2021 onwards.
If this does occur, the impact will be that I am penalised for keeping my rental properties in good order and condition.

Therefore my submission is that the tax-deductibility of any such revolving credit facility should remain up to the drawdown limit that existed on 27th March 2021 (whether actually drawn at that date or not), and that the non-deductibility be restricted to any increase in the loan limit that occurred after that date.

Officials from the Inland Revenue may contact me to discuss the points raised, if required.

s9(2)(a) [redacted]

s9(2)(a) [redacted]

To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules".
Date:	Saturday, 3 July 2021 4:24:01 PM

I would like to make a submission on the above topic.

I bought land in 2015 with the purpose to build two properties - one to live in and one to rent. The first house was finished in 2018, and the second (the rental) in February 2020. I specifically built a rental rather than purchased an existing property to rent because:

1 I wanted a new, warm, healthy, and up-to-code build that would be low maintenance and provide a great home for someone who can't afford to buy.
2 I wanted to add to the housing stock, not the problem.

Now I'm in a situation that, despite having done the right thing in terms of building a rental and supplying a good quality family home, I am going to have to pay substantial tax on it in a way that is disproportionate to any other business.

I think this law should be amended to exclude rental properties that have been built for that purpose in the last 5 years. Otherwise it is manifestly unjust.

Kind regards,

s9(2)(a) [redacted]

s9(2)(a)

To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules 4-7-21
Date: Sunday, 4 July 2021 5:07:51 PM
Attachments: RE RESIDENTIAL RING-FENCING RULES AND UNREALISED EXCHANGE LOSSES ON OVERSEAS MORTGAGES 29-3-21.msg

I would like to make a submission on the proposed interest limitation rules, and their interaction with the current Loss Ring-Fencing rules.

I note that the policy behind the introduction of the Loss Ring-fencing rules was stated as:

"Background
1.1 The Government has committed to a number of policy measures aimed at making the tax system fairer and improving housing affordability for owner occupiers by reducing demand from speculators and investors.
1.2 One of these measures is to introduce loss ring-fencing on residential properties held by speculators and investors. This means that speculators and investors will no longer be able to offset tax losses from their residential properties against their other income (for example, salary or wages, or business income), to reduce their income tax liability."
…
Aim of the proposed changes
1.6 The introduction of loss ring-fencing rules is aimed at levelling the playing field between property speculators/investors and home buyers. Currently investors (particularly highly-geared investors) have part of the cost of servicing their mortgages subsidised by the reduced tax on their other income sources, helping them to outbid owner-occupiers for properties. Rules that ring-fence residential property losses, so they cannot be used to reduce tax on other income, is intended to help reduce this advantage and perceived unfairness."

The focus of the Loss Ring-fencing rules appears to have been to help owner-occupiers in NZ with a purported tax advantage being obtained by investors i.e. the NZ housing market. However the scope of the Loss Ring-fencing rules applied to all residential land owned anywhere in the world, and not just in NZ.

I note the current proposals do not apply to residential land held outside NZ:

"Land in New Zealand
2.19 While the bright-line test applies to worldwide property, the Government proposes to restrict the application of the interest limitation rules to properties located in New Zealand. It proposes to exclude foreign properties on the basis that New Zealanders investing in properties outside New Zealand do not have a direct impact on the New Zealand housing market."

My submission is that the scope of the existing loss ring-fencing rules should also be limited to residential land in NZ. The aim of both the loss ring-fencing rules and the current proposal are on the NZ housing market and it appears to have been an overreach for the loss ring-fencing rules to have applied to residential land outside of NZ. It would also be inconsistent from a Tax Policy perspective to continue to apply the loss ring-fencing rules to land outside NZ given the current proposals do not do so.

I have had previous correspondence with IRD Policy staff (attached) in which I outlined the problems with the loss ring-fencing rules applying to land outside of NZ where there is a foreign mortgage funding that overseas residential rental property. The effect of this was that taxpayers have had deductions for exchange losses on those mortgages denied (because of those losses being interest expenditure) but are always taxable on exchange gains and cannot offset the ring-fenced exchange loss against the exchange gain income as the latter is not rent or income derived from land. This is an inequitable result and cannot have been intended when the loss ring-fencing rules were introduced.

My submission is that the scope of the loss ring-fencing rules should be reduced so it only applies to residential land in NZ, and that this change should be made retrospectively to the when the loss ring-fencing rules were introduced. This would allow taxpayers who incurred exchange losses on foreign mortgages in the 2020 tax year to offset those losses against the exchange gains that occurred in the 2021 tax year when most currencies recovered from the effect of the Covid 19 pandemic. Otherwise taxpayers will have 2020 exchange loss deductions ring-fenced and have to pay tax on the 2021 exchange gains (which economically has just put many taxpayers back into the same net NZD position on those foreign mortgages).

My submission would ensure that the scope of the proposed rules is consistent with the scope of the loss ring-fencing rules.

I would be happy to discuss my submission.

Regards

s9(2)(a) [redacted]

[redacted]

McIsaacs
ACCOUNTANTS WITH INSIGHT

DiY ACCOUNTING

Tools for better business
that save on accountancy costs

Phone 09 414 4050 Fax 09 447 1645 www.mcisaacs.co.nz

Ground Floor, Takapuna Finance Centre, 159 Hurstmere Road, Takapuna.
P O Box 331 626 Takapuna 0740

- Annual Accounting Services and Xero Systems
- Business Advice and Monthly Reporting
- Optimal Financial Structures
- Tax Consultancy and Advice

From: s9(2)(a)
To: James Edmonds
Cc: Melissa Siegel; Peter Frawley
Subject: RE: RESIDENTIAL RING-FENCING RULES AND UNREALISED EXCHANGE LOSSES ON OVERSEAS MORTGAGES 29-3-21
Importance: High

Hi s9(2)(a)

I refer to our emails below.

The recent proposed changes to interest deductibility for residential rental properties (no deduction vs 5 year phasing out) will also create the same issue raised below i.e. a taxpayer with an unrealised exchange loss in one year (from funds financing an overseas rental property) will be denied a deduction for that loss (being interest) but will be taxed on any subsequent unrealised exchange gain.

The proposed changes arguably have a worse outcome as the deductions are denied permanently whereas with ring-fencing the denial may be temporary.

Can this issue be considered by Officials when they are considering the proposed changes to the interest deduction rules so that exchange movements are exempt from the proposed rules? I understand the policy driving the proposed changes relates to the NZ residential rental market and prices, so it would not be inconsistent with that policy to exclude exchange gains and losses on overseas loans that relate to overseas properties.

Regards

s9(2)(a)

Email Footer New Address 150

asked us to update this advice for future legislative, judicial or Inland Revenue policy changes. Therefore we accept no responsibility for different outcomes arising from such changes. We strongly recommend confirming with us that there have been no changes before proceeding with or relying on any aspect of this advice.

RESTRICTIONS ON USE OF OPINION: Our opinion is solely for your benefit and is not intended to be relied on by any third party without our prior written consent. Furthermore, this opinion may not be quoted or circulated without our prior written consent. Except to the extent expressly permitted, this letter shall not be quoted in whole or in part or otherwise referred to in documents or circulated to other persons without our prior written consent. This letter is not intended to be relied on by such other persons and may not be applicable to their circumstances. Such persons should procure advice from independent professional advisers.
EFFECT OF OUR OPINION ON THE INLAND REVENUE DEPARTMENT: The opinion expressed above is not binding on the Inland Revenue Department and we cannot guarantee they will adopt the same opinion as us. Should the Inland Revenue Department dispute a tax position adopted you could incur significant legal and accounting costs in defending such action. Costs, which would not be recoverable, may be incurred even in the event of a successful defence. Furthermore, tax in dispute may need to be paid pending finalisation of dispute procedures
TAX RETURNS ALL TYPES: Where we have compiled tax returns of any type, our compilation is limited primarily to the collection, classification, and summarisation of financial information supplied by our client. A compilation does not involve the verification of that information. We have not performed an audit or a review and therefore neither we, nor any of our employees accept any responsibility for the information from which the return has been prepared. Further, the return has been prepared at the request of and for the purposes of the client only and neither we nor any of our employees accept any responsibility on any ground whatsoever, including liability in negligence, to any other person

---

From: s9(2)(a)
Sent: 9 September 2020 9:07 a.m.
To: 'James Edmonds' s9(2)(a)
Cc: Melissa Siegel s9(2)(a) Peter Frawley s9(2)(a)
Subject: RE: RESIDENTIAL RING-FENCING RULES AND UNREALISED EXCHANGE LOSSES ON OVERSEAS MORTGAGES 9-9-20

Hi James/Melissa

Thanks for the reply.

It would appear to be a simple fix to correct the issue describe below, and this fix could be made pending the overall FA review. For example, the fix could be either:

1. Exchange losses are excluded from being a deduction that is subject to SubPart EL; or

2. Exchange gains (relating to residential rental properties) are included in the definition of "residential income".

I assume such a fix could be easily added to the Taxation (Annual Rates for 2020-21, Feasibility Expenditure, and Remedial Matters) Bill, or the next tax bill that is introduced. This change should not preclude future changes from occurring as a result of the review of the FA rules.

I appreciate that Covid measures have taken priority, but this fix would be consistent with those measures as otherwise you will potentially have taxpayers paying more tax in the 2021 tax year than they should.

Regards
s9(2)(a)

From: James Edmonds s9(2)(a)]
Sent: 1 September 2020 3:50 p.m.
To: s9(2)(a)
Cc: Melissa Siegel; Peter Frawley
Subject: RE: RESIDENTIAL RING-FENCING RULES AND UNREALISED EXCHANGE LOSSES ON OVERSEAS MORTGAGES 29-8-20

[IN CONFIDENCE RELEASE EXTERNAL]

Hi s9(2)(a)

I am responding on Melissa's behalf as she is currently on annual leave. Financial arrangement issues remain on the Government's tax policy work programme, and the issue of forex gains and losses on foreign mortgages on residential properties will be considered as part of that project. We can't give a specific indication as to when any legislative changes will be made as such prioritisation decisions are for the Government to make. As you will appreciate, COVID-19 response measures have recently taken priority.

Cheers

James Edmonds | *Senior Policy Advisor* | Kaitohutohu Kaupapa Here
Policy & Strategy | Kaupapa Here me te Rautaki
Inland Revenue | Te Tari Taake
s9(2)(a)

From: s9(2)(a)
Sent: Saturday, 29 August 2020 11:16 AM
To: Melissa Siegel s9(2)(a)
Cc: Peter Frawley s9(2)(a)
Subject: RESIDENTIAL RING-FENCING RULES AND UNREALISED EXCHANGE LOSSES ON OVERSEAS MORTGAGES 29-8-20
Importance: High

Hi Melissa

I have another question relating to land. The issue I have (and I suspect many advisers will have) is in relation to NZ resident taxpayers who have an overseas residential rental property and an overseas mortgage funding that property, and those taxpayers are not on the cash basis under the financial arrangement rules.

As at 31 March 2020, I believe many exchange rates strengthened (against the NZD) because of the impact Covid was having. For example, the NZD/GBP rate was .4804 at 31 March 2020. This has resulted in the taxpayers described above incurring a large unrealised exchange loss on their foreign mortgages in the YE 31-3-20. Although it is not entirely clear, it appears that this unrealised loss (being deemed to be interest) would be caught by the residential ring-fencing rules on the basis that the expenditure was incurred "in relation to" the overseas rental property.

If this is correct, then the FX loss will form part of excess deductions in YE 31-3-20 (assuming there was already a net loss, or the FX loss resulted in net rental income becoming a net loss). If the exchange rates "normalise" by 31 March 2021 (such that the YE 31-3-20 loss effectively reverses), the FX loss in YE 31-3-20 will not be able to offset the unrealised FX income in YE 31-3-21 as the YE 31-3-21 FX income will not be "residential income".

As an example of this, if a taxpayer had a mortgage of GBP500,000 at 31-3-19 and at 31-3-20, the unrealised FX loss would be NZD$83,311 (as the FX rates were .5222 and .4804 respectively). This loss would be ring-fenced. If the FX rate is back at .5222 (or higher) by 31 March 2021, the same taxpayer will have FX income of at least NZD$83,311 in the YE 31-3-21 but will not be able to use the FX loss that arose in YE 31-3-20 against that FX income.

This issue appears to have been identified in the Submission below, and the highlighted part refers to refers to this being part of a tax policy work programme considering foreign mortgages. Would you please let me know if this issue is being considered at the moment, and whether there is likely to be any legislative changes made to remedy the issue I have raised above? It would seem more appropriate for any unrealised losses on foreign mortgages to be excluded from the residential ring-fencing rules given that the unrealised gains on these mortgages are not captured by the rules either.

I am working with clients at the moment on these issues and it is difficult explaining to them why the FX losses are ring-fenced and cannot be offset against any future FX gains from the same financial arrangement. As mentioned above, I believe there will be a large number of taxpayers affected by this issue in YE 31-3-20, and many taxpayers (and their advisers) may claim the FX losses without realising they are likely caught by the ring-fencing rules (particularly if their net rents are positive before calculating the FX loss).

"*Issue: Overseas land and foreign exchange losses*

Submission

s9(2)(a) [redacted]

Submitters considered that the rules should not apply to overseas property, given the aim of the proposals is to level the playing field between property speculators and investors and home buyers in New Zealand. It was considered that there is no rationale for subjecting overseas land to these rules.

In addition, it was considered inappropriate that a taxpayer could have income in a year from a foreign rental property, including foreign exchange gains on foreign debt, and then in a subsequent year have a foreign exchange loss resulting in losses that are ring-fenced. As an alternative to carving out overseas property, it was submitted that the rules should not apply to foreign exchange losses in relation to overseas land, and these should be able to be separated out and treated as deductible.

It was noted that the rules applying to land outside of New Zealand would create high compliance costs for individuals temporarily relocating to New Zealand and renting out property owned in their home country, and that in these instances foreign exchange movements may be the cause of the losses.

It was also submitted that if land outside New Zealand is not excluded, an exclusion should be available for an overseas residence of a "transitional resident", if the property would or could be their main home if living overseas. It was considered that this would be in line with the policy rationale for the transitional residence rules, being to encourage non-residents to migrate to New

Zealand.

Comment

Officials consider that it would be seen as unfair for deductions in relation to loss-making overseas investment properties to be able to be offset against New Zealand income where such deductions in relation to New Zealand investment properties are not.

The rationale that the proposal would level the playing field between investors and home buyers is only one of the rationales for these rules. In addition, it is considered there is a perception that it is unfair for deductions in relation to loss-making properties to be able to be offset against income from other sources when the capital gains may not be taxed, or may be taxed at a lower rate.

Overseas rental properties of New Zealand taxpayers are in our tax base, so it is sensible for all residential losses to be subject to the same rules.

There is currently a project on the tax policy work programme looking at issues in respect of the financial arrangements rules and foreign mortgages. Officials consider that the issue in relation to foreign exchange losses that submitters have raised should be considered as part of that project.

Recommendation

That the submissions be declined."

Regards

s9(2)(a) [redacted]

[redacted]

[redacted]

Email Footer New Address 150

[redacted]

proceeding with or relying on any aspect of this advice.

RESTRICTIONS ON USE OF OPINION: Our opinion is solely for your benefit and is not intended to be relied on by any third party without our prior written consent. Furthermore, this opinion may not be quoted or circulated without our prior written consent. Except to the extent expressly permitted, this letter shall not be quoted in whole or in part or otherwise referred to in documents or circulated to other persons without our prior written consent. This letter is not intended to be relied on by such other persons and may not be applicable to their circumstances. Such persons should procure advice from independent professional advisers.

EFFECT OF OUR OPINION ON THE INLAND REVENUE DEPARTMENT: The opinion expressed above is not binding on the Inland Revenue Department and we cannot guarantee they will adopt the same opinion as us. Should the Inland Revenue Department dispute a tax position adopted you could incur significant legal and accounting costs in defending such action. Costs, which would not be recoverable, may be incurred even in the event of a successful defence. Furthermore, tax in dispute may need to be paid pending finalisation of dispute procedures

TAX RETURNS ALL TYPES: Where we have compiled tax returns of any type, our compilation is limited primarily to the collection, classification, and summarisation of financial information supplied by our client. A compilation does not involve the verification of that information. We have not performed an audit or a review and therefore neither we, nor any of our employees accept any responsibility for the information from which the return has been prepared. Further, the return has been prepared at the request of and for the purposes of the client only and neither we nor any of our employees accept any responsibility on any ground whatsoever, including liability in negligence, to any other person

From:	s9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Sunday, 4 July 2021 7:45:13 PM

Hi there

Thank you for the opportunity to provide some feedback on the proposed changes.

We need to remember not everyone is capable of owning their own home and there is a need for private landlords to provide suitable housing. As such there needs to be a range of housing options available to renters (varying sizes, price points, locations etc).

We own new houses as well as older units. Our older units were cheaper to buy and therefore the rent is lower than our new builds. Our units house a retired male who lives alone and the other a young male that doesn't want to flat and has recently moved out of home. If the proposed changes of interest deductibility comes into force we will have to either increase the rents above what the tenants can afford (circa $100 per week per unit) or will sell the units. Neither of the current tenants will be in a position to purchase the units. They will be made homeless. We think a deduction should apply if the landlord provides the property for a long-term lease, say greater than 5 years.

We own 3 new builds, under the current policy only one would be allowed a deduction due to the date the Code of Compliance was issued. If we were to sell the other two the new owner would be able to have the deduction (due to timings). The deduction criteria should back date the code of compliance to 5 years before 27 March 2021. The length of time available for a deduction should be 10 years and only applies to an owner who acquired a property within 12 months of the issue of the code of compliance. Otherwise we are creating a new class of properties with code of compliance issued after 27 March 2021 that will be worth more due to their tax deductibility.

The above will encourage landlords to provide certainty to tenants and also allow if the landlord chooses to sell after a period of time and invest in new builds. New builds do need to be encouraged but not at the detriment of current tenants in older quality housing.

We have no concerns with the brightline test changes as we are long-term landlords.

If the opportunity arises I would like to discuss my suggestions. Please acknowledge my feedback.

Thanks,
s9(2)(a)

s9(2)(a)

To: Policy Webmaster
Cc: s9(2)(a)
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 4 July 2021 9:32:35 PM

Kia ora

Below is my submission regarding the design of the interest limitation rule and additional bright-line rules.

Executive summary:

1. I submit the proposed law change on interest deductibility should be scrapped altogether

2. Clause 8.6: Definition of a new build: I submit that "new build" be defined as any new build with a CCC issued on or after 27 March 2020 (one year before the govt announcement). So any house with a CCC issued on or after 27 March 2020 is eligible for the new build exemption.

3. Clause 8.20: I submit the new build exemption should apply in perpetuity for early owners and a fixed period for subsequent purchasers.

Background
My husband and I are two hard working Kiwi's with two young kids. In December 2020 we purchased our first investment property to help prepare for our children's future - a s9(2)(a). The property was completed and CCC issued at the same time that we settled on the property (on 17 Dec 2020). It has a house and unit on the same section so our rental property is currently providing a warm, brand new, healthy home to s9(2)(a) that require rental accommodation. We carefully calculated the rental returns and other expenses that we would incur to ensure that we could afford this property before purchasing it - at this point having no idea we could face a very significant tax bill given there was no advance warning provided.

Impact of changes to interest deductibility rules
The *Design of the interest limitation rule and additional bright-line rules* state there is a **General rule: only new builds with a CCC issued on or after 27 March 2021** are eligible for an exemption.

There is also a transitional rule at clause 8.8. which indicates that if we were to sell the property now, the purchasers would be eligible for an exemption, whereas we are not eligible. This is unfair and does not make logical sense that the exemption would not apply to us as the original owners, but it would apply to a subsequent purchaser.

The impact of this change to us is an annual tax bill of approx $14,000 per year - a huge amount that we had not factored in when we purchased the property given there was no advance warning of the changes. This will have a significant personal impact on us financially as a family, and we will be forced to consider all options to help mitigate this unforeseen cost if the current proposal goes ahead, including the possibility of passing on some or all of that cost to the tenants through rent increases. If interest rates rise (which they are predicted to do), we may have to consider selling the property due to affordability arising from the tax changes.

SUBMISSIONS

I make the following submissions:

1. I submit the proposed law change on interest deductibility should be scrapped altogether
Rationale: The changes to interest deductibility are going to have a significant detrimental impact on private landlords - making it unattractive and unaffordable to own a rental property in New Zealand. This will result in more people selling their investment properties, which will in turn lead to less rental properties being available for tenants, pushing rents up even further given lower supply. Alternatively landlords will increase rents to help cover some of their new tax costs. There is already a major shortage of affordable rental properties available, and this tax change will only make the problem far worse.

2. Clause 8.6: Definition of a new build: I submit that "new build" be defined as any new build with a CCC issued on or after 27 March 2020. So any house with a CCC issued after 27 March 2020 is eligible for the new build exemption.
Rationale: This date of 27 March 2020 would provide the new build exemption to all new builds built one year before the changes were announced. These are new homes built within the last year which should be included in the definition of "new build" as they are new builds. They are new homes providing quality new housing to tenants. Given there was no notice of this legislation provided by the government, it would be unfair to not provide the exemption to a home like ours, which is a new build and CCC was issued just a few months before the changes were announced.

2. Clause 8.20: I submit the exemption should apply in perpetuity for early owners and a fixed period for subsequent purchasers.
Rationale: This will encourage people to further invest in new builds - providing more housing stock and warm, dry homes to New Zealanders.

You are welcome to contact me on this email or s9(2)(a) to discuss the above further if required.

Thank you for your consideration

Kind regards

s9(2)(a)

s9(2)(a)

To: Policy Webmaster
Cc: s9(2)(a)
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Monday, 5 July 2021 11:14:20 AM

--The changes to the interest deductibility on rental investment property will have a huge financial impact on us, to the point where the changes will work against the government's stated aims of improving the supply of affordable housing for all New Zealanders.

--The changes introduce a level of unfairness in tax law, as we will be taxed on money that we do not have at a very high rate of 38%. This is different to all other business enterprises.

--The changes will destroy what has been a very successful enterprise, that has provided more than 20 new builds over the years. Affordable homes for New Zealanders.

We started out buying one rental many years ago, when we were a double income household. We built a house on the back of the property, then we had 2 rentals. We continued to build a substantial property portfolio, using this formula, slowly over the next 25 years. None of this could have happened without enormous personal motivation, hard work and calculated risk taking.

About 15 years ago, the size and time consuming nature of managing our portfolio became a full time job. One partner was by this time a primary caregiver of small children and the other gave up a well paid job to enable more energy to be put in to managing rental properties and developing properties. There were good and bad times financially. Developing can be a high risk, stressful occupation, where you can lose everything if you are not careful.

We are currently in the middle of a 3 year project to develop s9(2)(a) - an area of high housing need. This has been funded by borrowing against existing rental investment assets. The Bank said the lending environment was so strict, that had it not been for our perfect financial record and years of experience, we would not be getting the loan. However, the law change affects our cashflow so drastically, that it will be the last development we will ever do, because we will no longer qualify for loans from the bank. This is because the severe cashflow shortage caused by our need to pay more than $200,000 in additional tax, because the interest on rental investments is no longer tax deductible.

The $200,0000 required is $40,000 more than income we currently have to live on annually. The situation will be even worse if we are considered a Property Rich Residential Investment Company and ineligible for deductions on the desperately needed new builds currently underway. We will have to fund this situation in two ways.

Firstly, by maximising rental income, thus putting more pressure on the tenant's households that can least afford it. Rent rises are the exact opposite of the government's stated aims of more affordable rents.

Secondly and we have begun the process already, we will need to sell down some of our properties (between 10 and 15) and pay down debt. The government may think "well that is exactly what we want - fewer investors more home owners". However, we wrote to all 40 existing tenants (many of more than 5 years duration) to ask if they wanted to buy the home they were living in. Some were interested, but none were in a position to do so. Of the 5 or 6 houses, we have sold or are under contract, all have been sold to investors of Asian ethnicity. Typically with low interest loans coming from family or banks in China.

Two of our previous tenants have moved to emergency housing. Is this what the government wants - more people in emergency housing?

The Interest limitation rule will also lead to more run down properties. If, for example, the landlord has to borrow to fund a roof replacement and the interest is not deductible, this may mean the landlord can not afford to do the remedial work. This will mean more leaky, damp and mouldy homes. Once again the opposite of the healthy homes that the government wants. We are proud that all our homes meet or exceed healthy homes standards. Maintenance work may be delayed or not done at all as a consequence of the new rules.

Regards

s9(2)(a)

s9(2)(a) [redacted]

To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Monday, 5 July 2021 12:35:33 PM

To New Zealand Government,

I am opposed to the proposed removal of interest payments on rental property mortgages as being a deductible expense for tax purposes.

This policy will make it more difficult or disincentivize property owners from using borrowed money to make improvements to rental properties (beyond the minimum standard required). This will prolong improvement time frames for tenants of affected properties and slow down renovation activity.

The policy which changes mortgage interest deductibility on rental property has not been previously advised or signalled by the government, implementation should be phased to commence after the next general election to ensure it is properly mandated by the New Zealand public.

Regards

s9(2)(a) [redacted]

s9(2)(a)

To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Monday, 5 July 2021 1:04:36 PM

Kia ora

I would like to suggest some amendments to the consultation document.

By way of background, we are new property investors who only invest in new builds.

- We believe the date for a new build to have interest deductibility should be tied to the beginning of the Healthy Homes legislation, 1 July 2019. This would ensure:
1. That the homes meet healthy homes standards so they are warm and dry, so there is no substantial difference between homes built between then and now.
2. The quality of the new build is in line with recent legislation changes.
3. Tenants get security of tenure and rental price. For many of us, new builds bought in the last 5 years have a low return. It's not until we have paid down some of the principal (which is also usually out of our own pockets) that we start to see a good return. Making changes to what expenses can be deducted puts pressure on an already marginal return. We also have little potential for capital gains as a new build comes without improvement potential.
4. Simplicity for tax purposes. The 1 July date is well known and publicized.

It would also fix the loophole, where one of our homes got a CCC in October 2020. It wouldn't qualify for interest deductibility but if we sold it today, the new owner would qualify. This seems like it would create unnecessary turnover of homes and impact our tenants lives who are enjoying a nice new home to live in with their family and pets.

Thank you for your time.

s9(2)(a)

s9(2)(a) [redacted]

To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Monday, 5 July 2021 3:53:48 PM

To whom it may concern:

My wife and I would like to raise our concerns and objections regarding the interest limitation rule and additional bright-line rules being enforced on us as landlords.

We have been working hard in our professional careers over the last 14 years with a key focus in using rental properties to substitute our government super when we retire. We currently have four rental properties s9(2)(b)(ii) [redacted], as we opted to build newer houses that exceed the warm home requirements. These homes are the type of homes we would be happy to live in.

s9(2)(b)(ii) [redacted]

With the interest limitation rule coming into place we can no longer maintain this dream of retiring with additional funds to enjoy life, as you might know that government super is not enough for bare essentials anymore and is not keeping up with the cost of living.

This interest limitation rule also means that our s9(2)(b)(ii) [redacted], which we can not afford and with pressures applied in market we might end up with a loss since we now forced to sell it. This is clearly a revenue tax and not an income tax anymore. No other industry pays a revenue tax?

s9(2)(b)(ii) [redacted]

All the changes are one sided changes and are clearly penalising landlords who are rendering a service to the wider community. These changes are not addressing the root cause of the problem, which is a supply and demand driven. The land to build the kiwi quarter acre dream is too expensive and/or to far away from suitable infrastructure and reliable public transport. Revise the Resource Management Act and incentivise the fast development of neighbourhoods to make more sites available at a lower cost for new builds.

First home buyers are less than 5% of the market, and as soon as they are in the market, they want capital growth like all the rest of us. Forcing landlords to sell rental properties through this process will mean less rental stock, as not all renters are buyers.

Looking forward to a positive change that unite the housing market rather than segmenting it.

Regards,

s9(2)(a) [redacted]

Fonterra Co-operative Group Limited
s9(2)(a) [redacted]
14 Collingwood str, PO Box 38, Eltham, New Zealand, 4353
www.fonterra.com

s9(2)(a)

To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Monday, 5 July 2021 5:29:15 PM

Hi there,

I just have one point to make. I believe that if you only own 1 property, this should be excluded from the Residential investment property subject to interest limitation.

I know there are many people who are in a similar situation to me. I am 40 and purchased my first property (an apartment) in Sept 2020 as a way to get onto the property ladder. I can't actually afford to live in this myself, so I am currently living with my parents and renting out my property with the hope that one day I will be able to afford to move in myself. If this new proposal goes through it will set this timeline back significantly.

As this is my one and only home, it should be included in the "Main Home" category.

It seems that the point of this proposal is to help people get to get into their own homes, and for some of us this is the only option we have. We are now being treated as though we are greedy landlords out to make money. I'm just trying to secure my future the only way I can, and this proposal will hurt me and others like me.

I hope you take this point into consideration and I am happy to be contacted by Inland Revenue to discuss further.

Thank you
s9(2)(a)

PUB-0120

s9(2)(a) [redacted]

To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Monday, 5 July 2021 8:47:02 PM

To Whom it may concern.

I write to you to have a say around the new purposed tax laws. My Partner and I got into property investment a few years back brought by a need to provide a safe, warm and long-term house for my disabled, handicapped sister that also suffers from ill health. After a real struggle s9(2)(a) [redacted] to find suitable housing for her s9(2)(a) [redacted] it was apparent that it was a lost cause. Even with Winz trying to help it was no good, she ended up moving from one place to the next, most were not warm or dry and being she's vulnerable a lot of these houses put her at risk. Not to mention risk of the people she was put with or lived near in regards to her safety.

We managed to purchase a near new 2 bed home with putting our own house on the line to finance it. Along with her we managed to place a 80 year old woman with also ill health, s9(2)(a) [redacted], then we found out s9(2)(a) [redacted] grandparents were not able to afford to buy a property s9(2)(a) [redacted] (where we are based), so again put our house and the other rental on the line to purchase again a very modern warm home, one s9(2)(a) [redacted] so we needed to provide a warm dry home that was affordable. Moving on from this we have bought other homes and have done any upgrades required and have offered people in need these homes. We have tried to keep our rent levels to an affordable level knowing that all our tenants are on limited/fixed incomes.

While I can understand the governments issue with increasing house prices, I also think this new law is a big tax grab on residential investors, s9(2)(b)(ii) [redacted] We both feel that residential investors have been unfairly targeted with this law, while commercial landlord's enjoy huge yields and no such penalty.

To also find our Kainga Ora has been buying up more houses than private investors and out bidding 1st home buyers is a real kick in the guts, they also have exemption from this new law and 2 years extra for healthy homes compliance so hardly a even playing field with the laws already being against private investors.

While encouraging new builds is great...the fact is not all tenants can afford to live in new homes, not all investors can afford new homes and also the risk of renting out a brand-new home is a lot more.

The bright line tax also seams pointless as most investors are in it for the long haul and 10 years wont make a scrap of difference, if you're buying to flip a house you already pay tax on this regardless so I see the 10 year bright line as a complete waste of time and won't do anything to stop people investing.

I believe the government should be getting together with the landlord, tenant and first home buyers Assocation's work with them on constructive plans going forward. Ultimately there will always be a need for investors to provide accommodation, the government has a role to play with social and emergency housing, first home buyers need more help with lower deposit thresholds (we bought our 1st home with only %5 deposit), they need to have higher thresholds on price of what they can use the 1st home grants on, the gov should offer low interest loans to help with making up the extra deposit (as a tax payer I have no issue with this, we offer interest free student loans so why not 1st home buyer loan deposits), as for new builds this is where there needs to be a focus of removing red tape, freeing up land, making consenting faster and cheaper, work with banks to provide funding. One way of incentivizing new builds is to reduce costs....with land being so valuable why not make new builds exempt from GST? This would remove %15 off the price and this gets claimed back by the home buyer?   The housing market should be a free market and I feel the government and reserve bank will end up hurting the very people it says it's trying to help.

Lastly no other business is subject to paying tax on revenue not profit...this just goes to show the government has a bee in it's bonnet with residential investors and has run out of ideas, also that the tax rate will be at the investors personal rate rather then a fixed amount as per the UK. As per my statement above they need to get together with the affected groups and hear them out. We want to keep providing great homes for our tenants and buy more that suits the needs of older vulnerable people (units are great and Arnt usually wanted by 1st home buyers), a quick check on most Facebook rental wanted pages shows how many people are in desperate need for a roof over their head, the government can't do this on their own....Let investors help do their part and work with us not against us.

Thanks for taking the time to read my email.
Happy to take a call or discuss with someone on any matters

s9(2)(a)

[redacted]

LS & RY Properties
Timaru

PUB-0121

s9(2)(a)

To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rule
Date:	Monday, 5 July 2021 9:12:55 PM

Hi

Feedback as requested.

Please allow current investment property bought prior to 27.3.21 to retain interest deductibility in full as advised by both treasury and ird policy.

Understand for old stock purchased after 27.3.21 but given purchases were made under old rules this seems fair to retain this deduction.
Business expenditure such as interest has a valid nexus for investment property and enable rental stock for private tenants easing homelessness.

Agree with 10 year brightline rules and ringfencing.

Kind regards
s9(2)(a)

s9(2)(a)

To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rule
Date: Monday, 5 July 2021 9:16:07 PM

Hi

Feedback as requested.

Please allow current investment property bought prior to 27.3.21 to retain interest deductibility in full as advised by both treasury and ird policy.

Understand for old stock purchased after 27.3.21 but given purchases were made under old rules this seems fair to retain this deduction.
Business expenditure such as interest has a valid nexus for investment property and enable rental stock for private tenants easing homelessness.

Agree with 10 year brightline rules and ringfencing.

Kind regards
s9(2)(a)

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Monday, 5 July 2021 11:15:38 PM

Dear Inland Revenue

Thanks for the opportunity to comment on the proposed new rules.

I just wanted to question the rationale for the exclusion from the interest limitation rules where the exclusion does not apply to a property where "owner rents out a separate dwelling that is not part of their home but is on the same land as their main home" (para 2.54). My question is based on the understanding that this means the exclusion does not apply to a multi-unit flat (i.e. a home and income property, a granny flat).

As noted at paragraph 2.52, the exclusion applies for main home to support the first home buyers who have to use their property to generate some income to cover the mortgage and in line with the policy objective of making home ownership affordable. Similar to renting a room(s), a multi-unit property is simply one of the ways that make the home ownership more affordable to the first home buyers, in return for giving up the complete privacy that would otherwise be available for enjoyment at own home, i.e. noise across floor, impact on water pressure, sharing the laundry, garden, etc. As reflected in the underlying policy rationale, such privacy is unaffordable to many first home buyers in the current housing market and it is arbitrary to rule out a home and income property simply because it means an extra kitchen on the same property.

For these reasons, I propose the officials to consider the exclusion for main home be applicable on the basis of "predominantly used" test– i.e. the exclusion would apply if more than 50% of the property area is used as main home of the owner. This is consistent with the main home exclusion from the bright-line test (link to IRD website below), and can be distinguished from a situation where an investor purchases a multi-unit property and rents both units.

https://www.ird.govt.nz/property/buying-and-selling-residential-property/the-brightline-property-rule/exclusions-to-the-brightline-rule

Thanks again for this opportunity, and I look forward to a response to my question in the officials report.

A new homeowner in Wellington

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Monday, 5 July 2021 11:36:51 PM

To whom it may concern,

The proposed changes to the interest rate deductibility is a rather unusual move by the government. It allows the government to tax the revenue of an entity, rather than the profit of an entity. This can lead to a slippery slope of abuse by the government targeting revenues of other entities. After all, once it becomes acceptable to target a specific business entity, it is much easier to justify the targeting of other business entities.

After reading through the proposal document of the changes, I conclude that it is excessively complicated in trying to cover various scenarios and situations. The only group that would benefit from this is the very confused representatives from the government departments, accountants and lawyers. If the interest rate deductibility is such an important issue, would it be simpler to keep the current interest rate deductibility, and allow home owners to deduct their interest rate expense against their income tax?

Of course this short written message is against the preapproved outcome. I expect it will most likely be lost with extreme prejudice, as with all the other submission I have submitted for the bills under consultation and urgency.

Regards,
s 9(2)(a)

From:	s 9(2)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Tuesday, 6 July 2021 9:13:47 AM

Hi,

This is in regards to the consultation on the proposed interest deductibility tax changes on rental income.

Summary

- The changes are unfair to those who own a single house and rent another property themselves elsewhere, as is my current situation.
- I will now not be able to afford improvements to my house to make the living of my tenants more comfortable (e.g. a heat pump to supplement the fireplace and progressively replacing windows with double glazing).
- I propose:
  - Single house owners should not be subject to the new interest deductibility rules, only those with multiple houses.
  - OR
    - Rent I am paying myself should be deductible to offset the overall increased tax bill, i.e. [Rental Income] - [Rent Expenditure] - [Existing Deductibility] = [Taxable Rental Income]
    - Improvements to rental house living conditions above and beyond the healthy homes standards should be deductible up to x amount per year (e.g. double glazing, additional heating, wall insulation).

Introduction

I am in the situation where I own one house but do not live in it myself anymore and instead rent to tenants. I also pay rent myself. I know I am not alone in this type of situation. For example, many young people have purchased houses in cheaper cities they do not live in to just get on the property ladder whilst also paying rent themselves. I have a $575,000 mortgage, so after house insurance and rates are added in, rental income doesn't even come close to covering the costs, even with the existing deductibility rules. I have to supplement both my mortgage and pay rent out of my own income.

I am not going to sell my house as this would significantly disadvantage me when trying to get back on the property ladder. I currently rent a two bedroom house with my partner. A family of five currently rents my 5 bedroom house. If I move back into my house, the net displacement is three people no longer having housing. The real issue is there isn't enough housing to accommodate everyone. Labour's proposed changes look to give first home buyers a leg up whilst simultaneously cutting off the legs of renters, and hurting a few more people in between. However, since resolving the housing crisis by building more housing doesn't appear to be an option anymore, I think at the very least a fair compromise is needed.

Proposal

Option 1) Exclude single house owners from the new interest deductibility rules as owning a single house hardly qualifies as an investment if you are still paying rent yourself.

- Not doing so penalises a lot of young first home buyers who were just trying to get

on the ladder while they could but perhaps need to live elsewhere in higher paying cities to be able to afford that mortgage.
- This is my preferred option.

Option 2a) Allow single house owners who are renting themselves to deduct the amount they pay in rent from their rental income.

- I would guess that for the majority of people, their own rental expenditure would be significantly less than their rental income, so this would still be a net loss proposition compared to option 1.
- The formula would be something like this [Rental Income] - [Rent Expenditure] - [Existing Deductibility] = [Taxable Rental Income]

Option 2b) Allow moderate improvements to the livability of rental properties to be tax deductible. As examples, this could include:

- Additional heating and insulation above and beyond the healthy homes standard.
- Improvements such as replacing single glazing with double glazing.
- New carpet to better insulate the floor.

Cost to Renters with Proposed Changes

While this does not apply to every landlord out there, there are two ways this plays out for me:

1. I increase rent to cover the ~$6k in extra tax I need to pay in five years and continue to make the planned improvements to my house such as a heat pump to supplement the fireplace, progressively replacing windows with double glazing each year, and new carpet.
2. I increase rent to cover some of the extra tax and only maintain the property to the bare minimal standards required.

Conclusion

I don't necessarily disagree with removing interest deductibility but I do think it's going to hurt one house owners, such as myself, and renters, such as myself, the most. The rental market doesn't seem to get the same recognition as the first home buyers market in terms of difficulty to enter, but the glaringly obvious fact is there simply isn't enough housing in the major cities to accommodate everyone. Dissuading people from owning investment properties may give first home buyers the chance to buy a house at the expense of renters may be a good approach, whilst also increasing government tax income.

Single house owners who rent themselves should be exempt from the new interest deductibility rules as these people are not reducing the housing pool, and in my case are increasing it.

Feel free to contact me via email or on the below phone number.

Kind regards,

s 9(2)(a) [redacted]

From:	s 9(2)(a)
To:	Policy Webmaster
Cc:	s9(2)(a)
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Tuesday, 6 July 2021 10:15:27 AM

Hello team,

I am writing to make a submission about the intended interest limitation rule. Thank you for taking the time to read my email.

In my opinion, removing the interest deductibility is not aligned with running a business in NZ. As a property investor, our business is to provide accommodation for tenants which is safe, warm, secure, and liveable. Like any other business, we incur expenditure and receive income for the service offered. Interest is one of the biggest expenditures in our business and if this cannot be offset against the income we have received, I feel it is a very unfair taxing practice in the country. This unfair taxing practice may remove the food on our plates to feed our families and plan a better retirement without relying on the state to provide retirement benefits.

I am neutral around the bright-line rules. For a property investor, it is a long-term business model and it doesn't affect a property investor. However, it makes sense to tax speculators who are in this for immediate gain.

I would appreciate it if you can consider my views when designing or making any recommendations in this area. I am happy to be contacted via email if you require any additional information. Thanks

s 9(2)(a)

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Tuesday, 6 July 2021 2:55:18 PM

I would like to make a submission regarding the types of property affected by the interest deductibility change

I would like the ministers to look at purpose built and properties designed for student living within a 10 minute walk to any university.
If these houses are up to healthy homes standards and are rented 100% to students for the university year no more than 51 weeks per tenancy, these houses should still have interest deductions.
They are not taking from the housing stock for families. Many are purpose built with built in study furniture and shared spaces. Landlords cover cleaning, rubbish removal and they are let each year.
They are often empty over summer which allows maintenance .

Keeping these rooms available for students for the long term will make the living costs more affordable to students as otherwise property owners will have to put up the rents to cover the tax shortfall.

It would be easy to eliminate this sector from the interest deductibility exemption by location, tenancy makeup with student id on file as the check. It could be an exemption by occupation as they all will be students. In the same way halls of residence are exempt. They are mini halls of residence.

Thankyou for reading my submission.

Regards,

s 9(2)(a) [redacted]

Buchanan Chartered Accountants Limited
PO Box 15281
300 Te Rapa Road
Beerescourt
Hamilton, New Zealand
s 9(2)(a) [redacted]

Jim Gordon Tax Limited
s 9(2)(a)
[redacted]

6 July 2021

Mr David Carrigan
Deputy Commissioner, Policy
Inland Revenue
WELLINGTON

By email: policy.webmaster@ird.govt.nz

Dear David

Design of the interest limitation rule …..

My submission on IDD (interest deduction deferral or more formally the interest limitation discussion document) follows. It is a high-level submission only.

IDD is a response to extraordinary house price growth that is not within the typical tax policy framework. While I object to the Income Tax Act 2007 (the Tax Act) being used to respond to non-tax problems, I accept that Government has a right to proceed in this fashion.

That said, the suite of tax measures that will apply to housing from 1 October 2021 lacks coherency and runs the risk of sending wrong messages. There are two measures in particular that broadly target landlords that are of concern:

- IDD, and

- Rental house loss ring-fencing.

The way these measures interact needs to be considered.

Submission

If IDD is truly a response to an extraordinary event then it must be presumed to be temporary and we submit that it needs a switch (perhaps an Order in Council mechanism) to turn it off when house price growth is under control (and perhaps, but hopefully not, turn it back on again if needed again in the future).

The messaging that such a switch would send would be very well received and would be completely in line with the stated purpose of IDD.

In this context rental house loss ring-fencing as a parallel measure is, at least, understandable, although we would never agree that it is desirable.

Alternate submission

In the absence of such a switch IDD must be presumed to be a permanent feature of the Tax Act. If this is the case then the need for rental house loss ring-fencing must be considered.

Generally, in the absence of interest deductions, income from a rental house will be positive from both a cash flow and a tax perspective. Usually, the only reason it wouldn't be positive is if there was unusually large repairs and maintenance in any one year.

Retaining rental house loss ring-fencing and having a permanent IDD in place sends a message to landlords to plan their repairs and maintenance to get the best tax outcome, rather than just to do the repairs and maintenance. While this message is not totally correct, it is the message that will be received.

Further, given IDD, past rental house losses that are ring-fenced will be released (except in years where repairs and maintenance is unusually high). Thus, except for its effect when repairs and maintenance are very high, there is no point in the ring-fencing rule and all it will do is push up compliance costs.

We submit that if IDD is to be a permanent part of the Tax Act then the rental house loss-ring-fencing rule should be repealed as its raison d'etre has been made redundant. This will significantly reduce compliance and administration costs.

Conclusion

While there are many more detailed submissions that could be made on the Document, we have limited ourselves to submitting on its context, which we believe needs to be carefully considered. We can expand on this submission if that would help, but we believe that there is not much more that can be added.

As always, we are happy to discuss this submission with you.

Yours sincerely

s 9(2)(a)
[redacted]

From: s 9(2)(a)
To: Policy Webmaster
Subject: "Design of the interest limitation rule and additional bright-line rules"
Date: Tuesday, 6 July 2021 3:51:15 PM

Hi,
I am a long-term property investor (40+ Years) and have had other businesses over this time.
I have always understood that profit equals income less expenses and you pay tax on your profit.
To introduce a tax on expenses is draconian and misguided.
And gives me little confidence going forward with my long-term planning due to not being sure what will be taxed next.
If this tax is going to be implemented it should include all interest deductions in all industries, as to have it only on residential property is unfair.
Thank you
s 9(2)(a)

[redacted]

From: s 9(2)(a)
To: Policy Webmaster
Cc: s9(2)(a)
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Tuesday, 6 July 2021 6:43:01 PM
Attachments: Tax Policy proposal July 2021.pdf

To Whom it may concern:

A brief summary of my submission is noted below:

- I am a full time investor having invested in property for 25 years,
- I am against the astronomical increase in the Housing Register (567%) since March 2016 – brought on mainly due to recent policy changes,
- I am asking that the **true cost** of social housing per tenant is ascertained and compared against the **true cost** of the accommodation supplement per tenant,
- Reason for the above question is this proposed policy will place even greater strain on the Housing Register,
- I am not against social housing, just the public need to be informed of the **true cost** differential per tenant of social housing versus accommodation supplement,
- I am against the removal of interest rate deductibility and extension of the bright line test.

More detail of the above is in my submission attached.

Regards

s 9(2)(a)

Eclipse Property Group Ltd
PO Box 5164
Victoria St West
Auckland 1142

Phone: s 9(2)(a)

Eclipse Property Group Ltd

Property Management and Investment

---

6 July 2021

Email: policy.webmaster@ird.govt.nz

To Whom it may concern

Re: Design of the interest limitation rule and additional bright-line rules

Background:

s 9(2)(a) [redacted]

[redacted]

Proposed changes:

The concern I have with the proposed changes, is particularly removal of the interest rate deductibility and the flow on effects this along with the previously implemented changes is already having on the market, these include:

- Reduction in private rental supply when more is needed.
- Difficultly for tenants and particularly vulnerable tenants to secure private rental accommodation, i.e. tenants with poor track records, tenants with pets, families with children, disabled people, etc.

s 9(2)(a) [redacted]

Removal of the 90 -day notice (which is already in law) means most landlord's I know have significantly increased their pre-tenancy checks and, in many cases, would prefer to keep a property vacant rather than renting their property to somebody who may be deemed unsuitable through the tenancy checking process.

With the proposed tax changes, which has a stated aim as per page 7 of the discussion document to:

*'support more sustainable house prices**, including damping investors demand for existing housing stock**, which will improve affordability for first home buyers, and …..'*

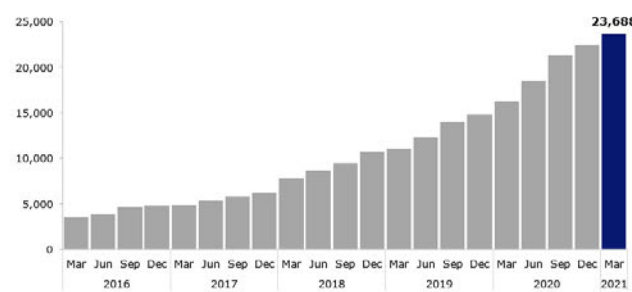
This will only make housing for vulnerable tenants even more difficult an expensive as many landlords either sell with a view to reducing debt on an existing investment portfolio (negating the interest rate changes), move to new builds (and compete with first home buyers), move to commercial property investing, reinvest into their own home or other investment options.

Statistical effects of changes:

Since March 2016 to March 2021 the Housing Register has increased from 3,549 to 23,688. This is an increase of 567% in 5 years

Housing Register summary - last 5 years

2016				2017				2018				2019				2020				2021
Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar
3,549	3,876	4,602	4,773	4,866	5,352	5,844	6,180	7,890	8,703	9,537	10,713	11,067	12,309	13,965	14,868	16,308	18,522	21,414	22,521	23,688



Looking at the effects of the policy changes to date in the graph above and combine this against a policy directive to dampen private supply of existing housing stock it is my belief the government needs to be transparent an inform the public what is the '**total cost**' of social housing per tenant. This is particularly important before making any further decisions that effects the Housing Register numbers.

s 9(2)(a) [redacted]

Social housing costs versus accommodation supplement costs per tenant:

The 'total costs' per tenant needs to be calculated so we know the true cost of social housing. This could be simply calculated by:

- adding social housing rents (less tenants 25% of their income contribution),
- costs of wrap around social services, property management, inspections, etc,
- repair costs due to tenancy damage, usually payable by HUD,
- cost of vacant social houses, of which there are many,
- then divide the total by the number of tenants.

This same calculation is then undertaken dividing the total cost of the accommodation supplement by the number of private tenants it supplies. As at May 2021 354,918 people receive the accommodation supplement.

This will give a transparent comparison between the cost of social housing (per tenant) versus the cost of the accommodation supplement (per tenant). Once this figure is calculated an informed decision can be made whether it is a good decision to bring in policy changes that in effect move people from the accommodation supplement to social housing which has occurred in such a dramatic fashion over the past 5 years.

Please note the above suggestion is in no way meant to indicate I do not believe social housing is not needed. It is an important part of the housing supply. The issue I am raising is the astronomical increase in social housing numbers since March 2016, 567%, is due mainly to policy changes to date. These changes come at a significant per tenant cost to the government.

From my experience I expect the cost per tenant of providing social housing to be significantly higher than the cost per tenant of the accommodation supplement so is this really the outcome we want as a country?

s 9(2)(a) [redacted]

Effects on tenants:

From my experience, s 9(2)(a) [redacted]. In my view this is a lose lose situation for all parties involved.

Due to the highly politicised nature of residential property, s 9(2)(a) [redacted]

Summary:

In terms of the latest tax proposal implications:

- I am against the removal of interest rate deductibility on residential rental properties and the extension to the bright line test.
- Before considering removal of interest rate deductibility, a 'true cost' to the government needs to be understood on a per tenant basis comparing social housing versus the accommodation supplement. What contingent liability is this policy creating?
- An understanding that approving this will cause further escalation in the Housing Register and is this an outcome the government really want to achieve?
- What happens to marginal tenants unable to pay the increased rents because of recent policies changes and who aren't eligible for the Housing Register? Likely overcrowding and moving back home where possible.
- Do we really want to reduce the supply of existing private rental housing?

Yours sincerely

s 9(2)(a) [redacted]

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Tuesday, 6 July 2021 8:45:57 PM

Submission of s 9(2)(a) – private individual.

The government's aim is to tilt the existing housing market to favour first home buyers.

The simplest tool to achieve this would be to have variable rates for the LVR. First home buyers requiring say 10% equity, Investors requiring say 50% equity. This could readily be varied to adjust demand in the market and could also be possibly implemented on a regional basis.

The tools the government are proposing to use to "tilt the market" are punitive and will result in outcomes that will not achieve the objectives sought.

The market drivers for residential housing are relatively simple economics – Demand – Supply – Cost of Finance

Demand – We are all aware of the demand pressure in the market driven by a range of factors including returning NZ'ers and historically low cost of finance.
Supply – Critical supply shortages due to poor planning processes, protracted lead in times, and shortage of skilled labour.
Cost of Finance – Historically low interest rates that have attracted both first home buyers and investors alike.

Interest Limitation – This is a totally inequitable tool when applied to only a small sector of the market i.e. those who have existing residential property as an income producing entity. It does not apply to other entities such as those with commercial or farm properties etc and as such victimises the residential investor to give favour to another sector of the market – the first home buyer.

Brightline Rule – This tool was originally introduced to capture house flippers (a small sector of the residential market specialising in quick turnover of do-ups and not paying tax on profits). The proposed 10 year rule has a far different intention and is in effect a capital gains tax. Inflation values over a 10 year period could be considerable but they are not true profit. Another unintended consequence of this rule will be to lock up housing stock as no-one will wish to sell within the 10 year time frame and this will deprive first home buyers of opportunity as the stock available for purchase will be restricted, and reduced supply will lead to increased pricing . A secondary consequence of this rule relates to those who own a second home as a holiday home. Often holiday home owners wish to upgrade or choose a different location for their holiday property, however this rule will penalise / tax those who simply want replace what they have with something different. They are not selling to make a profit, they have not gained income from rentals, and they have not claimed any expenses as tax deductible. This is quite inequitable.

New Builds – The rules the government is proposing to implement are intended to direct residential property investors away from existing housing stock and into new builds. The consequence of this will be to add further pressure to a market that is already unable to cope with the current demand. Accordingly, the added demand will put upward pressure on prices which are already escalating due to land, materials, and labour shortages. If new build costs go up there will be a flow on effect to the existing house market (a drag along effect) so we can expect to see continued escalation of residential property values which does not fit with the government's objectives.

I am happy to be contacted in relation to this submission.

Regards

s 9(2)(a)

From:	s 9(2)(a) [redacted]
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Tuesday, 6 July 2021 8:58:22 PM

Good evening,

I am an individual, typical ‘mum/dad investor’ who would like to make a submission on the impact of this proposed law change will have to NZ.

MY BACKGROUND
I am a salary/wage earner who works 40 hours a week and looks after 2 small children s 9(2)(a) [redacted]

[redacted]

[redacted]

[redacted]

IMPACT YOUR LAW CHANGES WILL HAVE
s 9(2)(a) [redacted] Surely there is more than 10 people in my situation, I can name 2 I work with alone.

2. If you hadn’t noticed we have a severe/major housing crisis/chaos! At the beginning of the year we were seeing 40 people per DAY begging for a house in Whanganui. They already can’t afford the ever increasing rents that landlords had to increase to cover healthy homes. How the heck do you think they will cover the next rent increase? Do you realise WINZ subsidies has not kept up with the rent increases.

3. So this will increase the housing crisis!

4. It will put the average New Zealand families into further poverty

5. s 9(2)(a) [redacted]

s 9(2)(a) [redacted].

SUMMARY

I HAVE NEVER in my life felt so betrayed by my government. If you continue with this you will see our housing crisis rise and its devastating.
You will find people will not be able to afford rents. Landlords will just sell their properties or keep them empty.
You will end up with a huge increase in winz accommodation supplements s 9(2)(a) [redacted] so it will be back to you.

Regards

s 9(2)(a) [redacted]

PUB-0133

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Tuesday, 6 July 2021 11:18:12 PM

Kia ora koutou

I wish to make a submission on aspects of chapter 8 of the discussion document.

The context of my submission is that my wife and I are private property investors, s 9(2)(a) [redacted] We are proud that our investing has added high quality, healthy, desirable housing to the national housing stock. We are proud we have not competed for existing stock with non-investors.

Regarding section 8.6, I submit the new build exemption should apply to builds that received their Code Compliance Certificate on or after **1 October 2015**.

This date change is vitally important because without it, our plans to continue to invest in further new builds will be severely curtailed. The capital we intend to invest in further new builds will instead be consumed by suddenly non-deductible interest.
I choose the date 1 October 2015 as I believe this is the date LVRs were introduced with an exemption for new builds. We took this introduction of a preferential LVR rate for new builds as a clear policy incentive that we should invest in new builds over existing stock. It seems highly unfair for the Government to have provided a clear policy signal to prefer new builds, then, in some cases mere months later, remove one of the key factors that made investing in new builds economically viable in the first place.
In summary, regarding section 8.6, I submit leaving the date as written will be a significant impediment to further new build investments for those investors like us who have already invested in new builds; and it is unfair to have given a clear policy incentive to investor and then change the basis on which we followed that incentive.
Change the date to 1 October 2015, so you do not impede those investors that have already shown willingness to invest in new builds from continuing to do so.

Regarding section 8.20, I submit the new build exemption should **not** transfer to subsequent purchasers, and should apply to the early owner **indefinitely**.
I submit this option for two reasons.
Firstly because without it, Government policy will create a market for properties that have interest deductibility attached. Investors will be incentivised to compete for properties in this market with non-investors, making it harder for non investors to acquire these properties. This competition will drive up prices.
Secondly the new build exemption should remain with the early owners

indefinitely. Putting an arbitrary limit on how long a new build remains exempt will act as a disincentive to building new, and will encourage unnecessary turnover in the market as the expiry of the term approaches. It may also encourage rents to increase in order to repay any mortgage before the expiry of the term. An indefinite exemption for the early owner would take away the pressure to sell prematurely and maximise rent to cover mortgage repayment during the term.
In summary, regarding section 8.20, we should not create a market for ex-new builds that attracts investors disproportionately to non-investors, and we should not create incentives for early owners to sell at some arbitrary date nor feel pressure to raise rents to cover a mortgage within an arbitrary time period.

I urge Inland Revenue to implement both the above changes.

A 1 October 2015 date will support continued investment in new builds from those investors who already have invested in new builds.
Not allowing subsequent purchasers to enjoy a partial exemption period will ensure we do not distort the market by incentivising investors to compete over existing stock. Allowing early investors to have an exemption indefinitely will remove any incentive to raise rents unduly to repay debt within an arbitrary period.

Officials from Inland Revenue are welcome to contact me if I may be of any assistance regarding this matter.

Yours sincerely
s 9(2)(a)

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Cc: s9(2)(a) [redacted]
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Wednesday, 7 July 2021 10:03:15 AM

Although I applaud the government's desire to make it easier for first home buyers to get into their first home, I oppose the plan to phase out interest deductibility for residential landlords.

If this becomes law, I believe it will have an unintended impact on the people the government is trying to help.

Background:
s 9(2)(a) [redacted]

Reason for Opposing:
I understand one of the governments desired outcomes from this law change is to "create a competitive and affordable housing market for renters and homeowners that is well regulated and well planned". I believe this will not create an affordable housing market for renters.

s 9(2)(a) [redacted] I believe landlords (including myself) in the following years will increase their rents considerably higher than the CPI rate. The acceleration of rent increases won't be good for any tenants.
s 9(2)(a) [redacted]

I used to be a tenant, and if I was still a tenant now, I'd be extremely concerned with any government proposal which might unnecessarily increase the rent I needed to pay.

One of my properties can be subdivided and developed, however I'll wait on the final outcome of the law before I make any decision to go ahead. The proposed requirements around new builds sound very complicated. If the new law results in higher compliance costs (e.g. tax and accountancy advice etc), I'll merely hold off developing until conditions improve or the law is amended in favour of landlords by another government.

s 9(2)(a) [redacted]

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Rental property submission
Date: Wednesday, 7 July 2021 10:03:34 AM
Attachments: image001.png

I wish to make it known that as a one rental house owner I will have to put my rent up to offset my ability to deduct my interest expenses. Such a shame when we have fabulous tenants that we haven’t increased the rent on for two years. I feel bad having to put them out but I know they cannot afford any more.

s 9(2)(a) [redacted]

s 9(2)(a) [redacted]

)(b)(ii) [redacted]

From: s9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Wednesday, 7 July 2021 10:18:11 AM
Attachments: image001.png

I have come up with something and amended my submission as below

From: s9(2)(a) [redacted]
Sent: Friday, 11 June 2021 5:01 PM
To: Policy Webmaster <xxxxxx.xxxxxxxxx@xxx.xxxx.xx >
Subject:

1. I fundamentally oppose the recent rule change that taxes residential rental revenue *instead* of the previously economically sound rule of taxing net profit after interest deductions.

2. I believe this new rule should not be activated in any shape and the government should retract its penalty bias position, and positively recognise the valuable contribution tens of thousands of New Zealand's landlords make in providing long term accommodation services to those who choose to rent.

3. Therefore, everything in the design of the 'interest limitation rule', as complex and unintended consequence ridden as it is, is redundant.

4. I support the extension of the Brightline test to 10 years for all property unless owner occupier or primary use for owner occupier (like a bach rented out for less days than the owner uses it). However, I note that the IRD already has powers to tax investors if they purchase and sell within ten years, so also believe the Brightline test is redundant.

5. **If this tax is applied to existing property then I propose an amendment is made where**

    a. **If an existing residential property is currently owned or purchased and subsequently made available for long term rent, for ten years then the landlord can deduct interest at 100%.**
    b. **If the property is sold, or converted to owner occupier within that ten year period then all interest deductibility must be clawed back upon change of use, or sale of property.**

Thanks

s9(2)(a) [redacted]

www.universalhomes.co.nz

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Friday, 11 June 2021 5:00:53 PM

---

1. I fundamentally oppose the recent rule change that taxes residential rental revenue *instead* of the previously economically sound rule of taxing net profit after interest deductions.

2. I believe this new rule should not be activated in any shape and the government should retract its penalty bias position, and positively recognise the valuable contribution tens of thousands of New Zealand's landlords make in providing long term accommodation services to those who choose to rent.
3. Therefore, everything in the design of the 'interest limitation rule', as complex and unintended consequence ridden as it is, is redundant.

4. I support the extension of the Brightline test to 10 years for all property unless owner occupier or primary use for owner occupier (like a bach rented out for less days than the owner uses it). However, I note that the IRD already has powers to tax investors if they purchase and sell within ten years, so also believe the Brightline test is redundant.

Thanks

s 9(2)(a)

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Submission on tax deductibility
Date:	Wednesday, 7 July 2021 10:27:50 AM

Property investment is a legitimate business and therefore should be treated the same as it always has been. There should not be any changes to the tax rules of commercial property or property used for business purposes. Added taxes will ultimately be pushed on to the consumer/general public making produce, products and services much more expensive. In this time of financial crisis, taxing New Zealanders more is utterly fool hardy and shows complete ignorance of the bigger picture.

Sent from my iPad

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	tax change on rentals
Date:	Wednesday, 7 July 2021 10:38:33 AM
Attachments:	image001.png image002.png image003.png

Hello,

Im writing to say I am totally against the proposed tax changes to rental properties.

They are run as businesses , and this is a fundamental business expense, not a loophole.

All this will do is drive rents up, when people can least afford them.

The govt should be looking at incentives for people to build and rent houses ,when there is a shortage, they are doing the opposite.

The Govt cant build enough housing, so why not open up land to Mum and dad investors, drop gst on new rental builds, don’t increase the tax, infact make it less overall.

Then watch the housing crisis disappear.

Why are they so against people investing and making a $$???

Regards,

s9(2)(a)

Electronic Imaging
A division of Permark Industries

MARKIT GRAPHICS

Find us on: facebook

From: s9(2)(a)
To: Policy Webmaster
Subject: Interest deductibility submission
Date: Wednesday, 7 July 2021 11:26:14 AM

I am writing to make a submission on the proposed tax changes for interest deductibility for landlords.

EXEMPTION REQUESTED FOR MULT-TENANCY PROPERTIES

It is recommended an exemption is granted for multi-tenancy properties which comprise of 3 or more dwellings on a single title. These fit the principles in para 2.11 and para 2.12 of the Government discussion document. They are not normally available to or competing with owner-occupiers.

A multi-tenancy property is commonly referred to as a block of flats. For the purposes of an exemption, they are suggested to be defined as 3 or more dwellings on a single title. It is not intended that multi-tenancy properties include apartments, duplexes (semi-detached) or home and income properties which are typically on separate titles and available for owner occupiers.

Multi tenancy properties are specialised to investors. They are unlikely and difficult to be used as private owner-occupied residences. Their physical structure and configuration are unique in that they are configured with separate dwellings/flats usually within the same single structure, and on the same title. It is suggested multi-tenancy properties should comprise of 3 or more dwellings, in order to make a key distinction with home and income properties, where an owner occupier lives in one dwelling and may rent another typically smaller dwelling.

There are significant barriers to convert multi-tenancy properties for owner occupier use. Without separate unit titling and establishing a body corporate the dwellings would not be available as owner occupier units. They typically cannot be converted as of right, being subject to survey, valuation, council consents and a solicitor to separately unit title each dwelling subject to satisfactorily navigating a number of conditions and infrastructure work which usually makes unit titling uneconomic.
Depending on the property, council may prescribe additional conditions to bring the property up to an appropriate standard.

Exempting multi tenancy properties gives investors an asset class to invest in, which is on a level playing field with other types of investment for which interest costs are deductible. An exemption will further help take investors away from competing with owner occupiers, furthering the governments objectives.

Typically they are a lot more expensive and larger properties. They typically have higher yields, so investors buy them for long term (taxable) cashflow (not short term capital gain), accordingly the interest should be deductible.

This important investment category also typical provides vital accommodation for many tenants in the same block, and landlords should not be unnecessarily penalised for doing so.

Exemptions are considered for student accommodation (halls of residence) and serviced apartments due to their specialised nature. Multi tenancy properties are equally different and merit exclusion in accordance with the government objectives.

Please contact me if you would like to discuss further.

Regards
s9(2)(a) [redacted]

From: s 9(2)(a)
To: Policy Webmaster
Subject: SUBMISSION: Interest deductibility consultation
Date: Wednesday, 7 July 2021 11:38:05 AM

To whom it may concern,

Residential rentals are an essential part of a functioning society that provide a net public good for those that make alternative choices to owning their own home.

Interest deductibility effectively makes rental investment more heavily taxed than other industries, investments, or businesses.

The net burden of the taxation is uncontrolled in times of higher interest rates and higher costs, a residential investor will be forced to pay more tax in periods of higher cost. The proposal is both unfair and unreasonable.

Best regards,

s 9(2)(a)

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Interest deductability on rentals
Date:	Wednesday, 7 July 2021 12:06:50 PM

Im am writing to say that the proposed inability of a taxpayer to not be able to claim interest as an expense against his taxable income from house investments they have is totally wrong and goes against all the principles of business
If you wont let people claim the interest then dont make the pay tax on the income from their house investment
Also you dont seem to understand that this will have a huge impact on supply of rentals as people are just now not interested in having rentals if they cant deduct the interest expences off the income
Along with the erosion of landlords rights on there rentals there will be huge drop in the number of rentals available Personally i know of 5 rentals not being rented now due to the above reasons Thankyou
s9(2)(a)

Sent from my iPhone

From: s 9(2)(a)
To: Policy Webmaster
Subject: Consultation RE: Interest Tax Change
Date: Wednesday, 7 July 2021 12:15:06 PM

To whom it concerns,

I am emailing regarding a consultation currently being held about the incoming tax change on residential income properties. I was advised to send a submission to this email address, if this is not correct, please forward it on to who it needs to be sent to.

Like a lot of Kiwi families, we have taken the opportunity at a young age to have a second property, as a rental. This isn't a get rich fast or income earning decision - this is all long term in the hope that when we come round to retirement, we will have enough to live out our life post retirement.

Everyones position is going to be different, but I can guarantee most will have similar outcome/result from the proposed tax change. Below, I will provide how it will affect us directly:

We currently rent out a s9(2)(a)

Total Income / Year: s9(2)(a)

From this, we can deduct all our 'running costs' or expenses required for running this property. This includes things like Rates, Insurance, Servicing of Heat Pumps, General house maintenance and repairs, and so forth. This can change year to year but I will provide my previous year as an example:

Insurance / Rates / Maintenance etc: s9(2)(a)

This then means we have a s9(2)(a)

Now, previous years, we have another expense we have been able to include in our return - our interest payments to the bank. In order to be able to provide these properties as a rental, we have had to borrow money, in the form of a mortgage, from the bank. Now the bank doesn't provide this service for free - we have to pay for this service - in the form of interest payments.

Now this house is a run of the mill house s9(2)(a) nothing fancy, s9(2)(a)

We obviously have less than that owing on the property - around s9(2)(a) But this will be a different figure for each individual, but we will work with that s9(2)(a) in my example.

In the previous year, I paid s9(2)(a) in interest payments.

This left me of a net income or s9(2)(a)

Which 30% is to be paid in tax - s9(2)(a)

This means my ACTUAL income I made from this property over the last 12 months, was s9(2)(a) Now this figure is the one I want you to remember.

Once Labours proposed tax change comes into full effect, if I use my previous year's return as an example:

Gross is still s9(2)(a)
Insurance / Rates / Maintenance etc is still s9(2)(a)

BUT when it comes to my tax return, I can no longer deduct those interest payments. This means that I will be required to pay 30% of s9(2)(a)

Now, keep in mind, my outgoing costs to run this property in every other aspect has NOT changed. My net income of the year on my end has still been s9(2)(a) bill to pay rather than the s9(2)(a) This means that overall, after tax is paid, I will have actually LOST s9(2)(a) over the year.

So what does this mean?

Simple answer, rental prices will go up.

A $34.32/week increase would be required for me to end up in the exact same situation I was previous to the tax change. It may not sound like a lot to some people, but families in a rental situation, simply don't have that money to spare. And this number will be a lot bigger for families who have borrowed more than I have - namely in area's like Auckland where house prices are often double or more - meaning the rent increase those people will have to make could be as much as $60-70/week +

Personally, my current tenants I have, are fantastic. s9(2)(a) , working 50 hours a week just to get by. They have coins left over most weeks. They simply can't afford an increase in rent.

Labour's mindset behind this change has been to 'provide cheaper house prices'. This simply won't happen.

In my opinion, here are the likely scenarios:
- What I've already suggested above - rental prices will simply increase. And I have no doubt I'd be able to rent it out at that higher price, the demand is there. It would however mean losing a reliable tenant who is just getting by in life.
- Landlords may sell the house. There is already a shortage of housing, there is high demand. A house that is a proven rental is going to get snapped up very quickly.

And that second point is where I don't think this has been properly thought through.

This change in tax return, only effects those who HAVE A MORTGAGE. The investors, the property moguls, the companies who own multiple, dozens of homes as rentals - they have the capital to buy houses outright. And because they don't then have to pay interest rates to the bank - this tax change will have ZERO affect on their return. If anything, its going to bridge the gap in rental between the lower end properties, and the higher end properties that are ran by these companies. These are the people that will be buying the rentals that do go on the market, and will be slapping an inflated price on them, because they can. And they know the demand is there, they will get filled.

Which, again, leaves those tenants who are only just getting by, are either going to have to find quite a bit extra money per week, move into a smaller or less looked after house, join the long queue for state housing, or worse.

The only people I can see benefiting from this change, is a) the property moguls/rental companies with large capital and b) the government.

The other issue I have, is that interest we pay to the banks - that is an income on the banks side, which they have to declare and already pay tax on. This change, is essentially taxing that same money twice. Which I personally believe is pretty immoral.

s9(2)(a) [redacted] - and it is amazing how every set of hands a part goes through, they all want to 'clip the ticket' and add on a handling fee. What was a $100 part at manufacture, can quickly become a $1000 part by the time it reaches our store, simply due to each depot, each outlet, each shipping company wanting a piece of the pie.

This tax change feels exactly like that. Its the government wanting to clip the ticket, take a piece of the pie.

And the end user, the consumer, are the ones most affected.

Thanks for taking the time to read this, and I look forward to seeing any possible developments heading further ahead.

Please do correct me if any of the information I have above is incorrect
s 9(2)(a) [redacted]

Thanks,
s 9(2)(a) [redacted]

From: s 9(2)(a)
To: Policy Webmaster
Subject: Submission - Design of the interest limitation rule and additional bright-line rules
Date: Wednesday, 7 July 2021 12:46:02 PM

Good morning,

Thank you for the opportunity to submit to the above consultation.

I write on behalf of Anglican Financial Care. AFC's mission is to support the financial wellbeing of its members, being the clergy and employed lay workers of the three tikanga Anglican Church, including their dependents. Our vision is that members will have financial peace of mind during their ministry and in retirement.

We are concerned about the precarious circumstances of those Anglican clergy who are required to live in a vicarage. Such clergy, who may be required to live in a vicarage until retirement, are disadvantaged in the purchasing of their first house through the unintended consequences of recent statute resulting in:

1. their not being permitted to utilise their KiwiSaver funds to purchase their first house as, while they intend to live in the house in due course, at the time of purchase they are not in the position to occupy the house immediately;
2. not being in the position to live immediately in their first house purchase they are required to have a 40% deposit to fund their purchase, it being deemed an investment house; and
3. the inability to offset mortgage interest against rent and therefore paying tax on a fictitious rent compounded by this effecting their Working for Families entitlement.

These criteria make the purchase of a first house nearly impossible for those required to live in Service accommodation. The longer such employees leave it to purchase their first house the further behind they slip on an aspiration to be debt free by retirement.

Within the parameters of the above consultation as to **Design of the interest limitation rule and additional bright-line rules** we propose that Clause 2.18:

Main home means, for a person, the 1 dwelling—
(a) that is used as a residence by the person (a home); and
(b) with which the person has the greatest connection, if they have more than one home

might also include :

(c) OR is considered the main dwelling for future self-occupancy in circumstances where the owner is prevented from residing in the house while being required to reside in 'service accommodation'.

Thank you for considering this submission. I am happy for officials from Inland Revenue to contact me to discuss the points raised, if required.

Yours sincerely,
s 9(2)(a)

s9(2)(a)

[redacted]

Anglican Financial Care
Te Maru Mihinare

Ethical at heart

PUB-0144

From: s 9(2)(a)
To: Policy Webmaster
Subject: [SUSPECT SPAM]Discussion on rental interest and brightline
Date: Wednesday, 7 July 2021 12:58:28 PM

Hi

I would like to submit that if an owner occuppied house is made available as a rental, because the owner has decided to build a new house for themselves to live in, this technically is adding to the housing/rental stock and should be allowed to claim tax on the mortgage interest on the existing house/new rental property (or the owner occuppied build if thats possible).

This existing house/new rental property (or the owner occuppied build if thats possible) should also only be subject to the 5 year brightline test for the same reasons - incentive and reward of adding to the rental/housing stock.

This is my second submission and I would like it to be seriously considered

Kind regards
s 9(2)(a)

From: s 9(2)(a)
To: Policy Webmaster
Subject: Fwd: Feedback on Interest Deductability
Date: Wednesday, 7 July 2021 2:51:37 PM

Regards
s9(2)(a) [redacted]

Sent: Wednesday, July 7, 2021 2:47 PM
To: x@xxx
Subject: Feedback on Interest Deductability

Good afternoon

I am opposed to the proposed law changes, limiting the deductibility of mortgage interest on rental properties in New Zealand.

The vast majority of landlords in New Zealand are ordinary Kiwis who are carefully taking care of their future financial position, and are caring and intelligent landlords. This majority have been the backbone of New Zealand's rental market for decades, and they fulfil their role much more efficiently than any government could.

To arbitrarily legislate that the genuine business expense that is interest on a rental's mortgage is not only blatantly unfair, but also counter productive. Many landlords, presently holding one rental property are either exiting the market, or seriously considering doing so. This is actually reducing rental stock across the country, while the additional houses available to purchasers through this process are not enough to impact the house price crises we presently face.

From all angles, this proposed legislation is both unfair and unlikely to have any positive effect.

Please consider dropping it.

Regards
s 9(2)(a) [redacted]

From:	s 9(2)(a) [redacted]
To:	Policy Webmaster
Subject:	Rental Tax
Date:	Wednesday, 7 July 2021 3:24:27 PM

Hello

I am funding the construction of 6 - 12 supported living units on a property I own.
These units are to meet the need of the local community s9(2)(a) [redacted]
Many of our financially vulnerable elderly are unable to purchase a unit themselves and are living in cold and squalid conditions in s9(2)(a) [redacted]
Some elderly s9(2)(a) [redacted] have taken to living in motor vehicles and caravans as they are unable to find affordable rental property for themselves.
I am attempting to make these units affordable to these people and the proposed rental property tax will impact very negatively on the affordability of these rentals we have in mind.
Please reconsider this rental tax as it is going to also affect the most vulnerable in our community.
Regards
s 9(2)(a) [redacted]

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: interest deductability and Brightline test
Date: Wednesday, 7 July 2021 3:31:03 PM

The proposed changes place all residential Property Investors in one box which is bound to remove from the market a very important group
This group of investors invest in multi flat or apartment dwellings not stand alone houses.
It is easy to see that single dwelling investors have pushed the price of homes to a level that makes it difficult for the first home buyer.
Those that provide flats or apartments cater for students, families saving for first home, Professional People in a city on contract for a year or two, one of the partners from a relationship breakdown are essential and if they are forced by blanket rules to leave the market we are going to be as a country in a very difficult position.
I ask that residential multi unit investors be exempt from changes to the changes currently proposed.
s 9(2)(a) [redacted]

From:	s 9(2)(a) [redacted]
To:	Policy Webmaster
Subject:	strongly disagree with the new Non tax deductible laws being proposed
Date:	Wednesday, 7 July 2021 5:17:56 PM
Attachments:	image001.png

I disagree with the new law proposition.
And think that having signalled out old homes and penalising those that do have old homes and rentals with tenants is Ridiculous.
As a rule of thumb the rules in order to make older homes healthy is good…in that it gives the tenant a nicer place to live and healthy in essence.
But to try and stop mum and dad investors by taking away this deductions of interest means that their will be less older homes being looked after and you are creating another problem not solving a problem.

Having signalled out old homes is not the answer. Encouraging people to upgrade the homes and make sustainable for future generations is.
Perhaps incentivising rent to buy situations.
And look for partnerships with mum and dad investors/ or kiwis to help create more homes…

Good luck, but this is not the right way to attack the situation. Think before you act NZ/Labour

s9(2)(a) [redacted]

[redacted]

[redacted]

[redacted]

DESIGN | CREATE | BUILD | CONSTRUCT | MAINTAIN

LOUGHNAN BUILDERS

From:	s9(2)(a) [redacted]
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Wednesday, 7 July 2021 5:34:41 PM

Dear IRD/government

s 9(2)(a) [redacted] I am against the new rule of not being able to deduct interest costs for rental properties. Owners of rental properties have been treated unfairly because other business/ investments can deduct their interest costs. s9(2)(a) [redacted] As the new law implemented, I will be running at a big lost and can not afford to keep this rental property, which is a healthy home for a single mother with a child to stay. I would really hope the government will reconsider of implementing this rule before the rental cost go sky high for renters. It is important for people to stay in an existing house as new built houses are not speedy enough to match up the demand.

Regards

s 9(2)(a) [redacted]

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Wednesday, 7 July 2021 6:06:44 PM

I wish to lodge my objection to the governments proposal to exclude interest payments as a legitimate cost of running a residential property business.

This is contrary to the rules applicable to every other type of business.

Regards s 9(2)(a)

PUB-0151

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Wednesday, 7 July 2021 6:21:28 PM

I would like to make a submission on the proposed changes to interest deductibility and bright line test for residential landlords. I have been a property **investor** (NOT a speculator) for over 17 years and I have the capacity to provide a home for 16 tenants. The proposed changes will have extremely negative consequences for landlords, tenants and home buyers for the following reasons:

1. Removing the ability for landlords to deduct their biggest cost - mortgage interest as an expense will rapidly increase the cost of providing rental accommodation. This is an extremely dramatic change in policy and will send a message to the rental property industry that the government will no longer tax your business on profit like every other business but instead on revenue.
2. The resulting tax bill will get passed on to my tenants in the form of year-on-year rent increases as the changes are phased in until a new equilibrium is reached.
3. If you increase the bright line test to 10 years you will reduce the flow of all property captured by the bright line test available for sale. I believe the intent of these changes is to provide more housing availability and better affordability. I am certain extending the bright line test will be extremely successful in achieving the opposite. By reducing supply there will be a consequent increase in house prices and rent.
4. By exempting new builds you will drive investors into this market which will increase demand in a sector which is already severely constrained. This will increase prices which will make new builds even more unaffordable for first home buyers.

I will elaborate on the above points and provide a personal perspective on how these changes will have consequences in the real world.

1 Regarding tax deductibility, if for example I pay $40,000 p/a in interest and this is no longer deductible then you are essentially saying that I make $40,000 more in profit than what I do in reality. This will then get taxed at say 30% = $12,000 tax bill per year which I wouldn't have if you keep the status quo.

2 I am a full time landlord and rent is my only source of income. If I am going to end up with an extra $12,000 per year in tax to pay then this money needs to come from somewhere and my only option is to **increase rent by $231 per WEEK.**

The real world consequences are this: I provide homes for beneficiaries, fortunately the 2021 budget gives beneficiaries up to an extra $55 per week so hopefully they will be able to afford the rent increases to pay my new tax bill - for now. However I am extremely concerned if interest rates were to double to 4-5% in the next few years....In which case you don't have to be a maths genius to work out the ratio of interest increase to tax increase to corresponding rent increase will be absolutely catastrophic for all tenants unless the proposed law does not go ahead.

I think a good analogy for points 1 and 2 would be to look at the way cigarettes are taxed. For several years the excise tax on cigarettes was increased every year on January 1. The reason behind this was to increase the retail cost to the consumer resulting in reduced affordability. In this case the government increased the tax on cigarettes with the full expectation that the retailer would not absorb the tax and instead pass it on to the consumer.

My point is it looks like the government wants to use the same tool (increase tax) to achieve 2 opposite outcomes. It defies all logic to think that taxing cigarette retailers to make their product more expensive will have the opposite effect of taxing landlords to make their service of providing rental homes more affordable.

3 Regarding the proposed 10 year bright line test: If for example I have a property which was purchased 7 years ago, the tenants have just moved and I now want to sell it. The average capital gain in NZ across this time was about $419,000. So I will have a choice of paying a bright line tax bill of up to 39% x $419,000 = $163,410 which by the way would be the most draconian ~~capital gain~~ bright line tax in the world. OR I could keep the property empty for another 3 years and pay the relatively small holding costs to wait until 10 years have passed since purchase and sell it and not pay $163,410 in tax. What do you think people are going to do?

Another scenario would be if I lived in my family home for 2 years after purchasing it and needed to move to a different city but wanted to keep the house to either move back to at some point in the future or sell. The choice would be either rent it out and risk the 6 figure tax bill as described above if it was sold within 10 years or keep it empty and pay the relatively small holding costs and not have to worry about all the risks and problems associated with renting the property out AND not pay the 6 figure tax bill. I know what I would do.

So this law change will not only keep otherwise available properties out of the supply chain of houses for sale right now but it will also keep houses out of the available rental pool. I am convinced this reduction in supply will contribute to both house prices and rent prices escalating which I do not believe was the point of the proposed legislation.

Regards,

s 9(2)(a)

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Submission on interest deductibility rules on rental properties
Date:	Wednesday, 7 July 2021 6:31:14 PM
Attachments:	image001.png image002.png image003.png

Dear Sirs

Congratulations on bringing in these overdue tax changes.

s9(2)(a) the tax loopholes around rental housing have distorted the economy and made inflation figures provided by the Reserve Bank meaningless.

These tax loopholes have been a major driver of investment in rental housing, which has made housing unaffordable for large numbers of New Zealanders.

If the criticism being made on the removal of tax deductibility of interest costs is based on the claim that a rental property owner is running a business and is therefore entitled to deduct all costs, then the logical extension has to be that when the rental property is sold, that the capital gain is totally taxable at the investor's marginal tax rate. For too long, rental investors have been able to deduct interest and not pay capital gains. It has also been driven by the easy credit and gearing provided by the main banks which is a significant driver of property price increases, and has the potential to create a disastrous bubble.

Current rental property prices in major centres offer low rental yields and purchasers only buy in full expectation of capital gains. To avoid the continuing property bubble, it is essential that the attractiveness of rental property investing is reduced. If you are not paying capital tax on exit, why should you be able to deduct a capital cost (i.e. the interest on the money you have borrowed to fund the purchase)?

This step helps to better align taxation of rental properties with other businesses and investments. The rental property tax concessions have been disproportionately unfair on salary/wage earners and the poorer sectors of our society.

Congratulations again to the Government for these moves which may come in for a barrage of self-interested complaints from those used to make excessive un-taxed gains in or around the rental sector. This is a step to ensure that all New Zealanders pay the right amount of tax, and incidentally, it will also help to make our true inflationary figures more accurate.

Regards

s9(2)(a)

[redacted]

www.cliffeconsulting.co.nz • s9(2)(a)

Cliffe Consulting
INDEPENDENT FINANCIAL ADVISERS

Celebrating 25 years of giving independent financial advice

Cliffe Consulting Limited is a licenced Financial Advice Provider, and you can read important information about our firm and how we operate here.

To book a meeting with me, go to https://www.cliffeconsulting.co.nz/contact/

PUB-0153

From: s 9(2)(a)
To: Policy Webmaster
Subject: submission on the design of the interest limitation rule
Date: Wednesday, 7 July 2021 6:45:10 PM

To whom it may concern.

The change of the tax rules in treating the legitimate deductibility of interest as a 'loophole', is outrageous. Like all other businesses, why should all expenses associated with that business not be deductible.

Much like any other business owner, as a landlord I base my business decisions on affordability taking into account all expenses. This change of goal posts by the govt. will put many in financial peril through no fault of their own.

The govt. in being disingenuous in pretending landlords are 'cheating' the system and in effect are introducing a new tax. Yet another promise broken.

Regards

s 9(2)(a)

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Tax deductibility submission
Date:	Wednesday, 7 July 2021 6:51:08 PM

Hi,

I have no idea how to write a submission to the government with regards to a new tax change. However I had heard you wanted feedback so this is what I think and how it effects our family.

This change is tax deductibility is just a way of making money for the government and has nothing to do with helping the housing crisis or the people renting trying to buy their first home.

We brought our first rental last year. We didn't increase the rent as we really like the single mum living there when we brought and she takes good care of the place.

Since buying we have invested in improving the property with Sayr ventilation, fixing ongoing leaks, and installing a heatpump. This is part of being a good landlord in our opinion and have plans to bring the place up to a nicer standard in the coming years. By replacing the very tired kitchen and fixed floor coverings.

We are not heartless monsters living overseas with no care for our tenants, as your government implies.

We made the plan to buy this property with making very little to no income off the rent, and invest back into the property making sure our tenant had the best living conditions we could offer.

We were happy to do this work ongoing, along with the 3 monthly tenant checks for insurance and everything else that goes into managing a rental, for no profit in the short term, with the view of selling in our retirement (30 years away).

This in our opinion is a win win, we secure our retirement, our tenant has good living conditions at an affordable rate and the housing market has an old tired sub standard property brought up to standard and maintained for when we do sell in the future.

The change in tax deductibility makes this situation hard for us as we now have the choice of wearing the extra cost $5-6k per year or bring our rental up to the market rate and share the cost with our tenant. Not something we want to have to do to her.

So our tenants rent has to go up, putting pressure on her. Making it impossible for her to save for her first house.

Or we sell as we can't afford it and it gets brought by another investor who puts the rent up anyway, or a first homebuyer buys it and my tenant has to move her and her son to another house (which will be an advertised rental so will be at market rate, again increasing her weekly rent as the reason her rent is low is because she's been in the same house for a long time and looked after it as her own home).

So how does this help tenants save for housing deposits? It doesn't

How does it ensure landlords have the small amount of surplus profit to make sure the rental properties are maintained to good living conditions? It doesn't

The landlords with cash will still keep buying. (Probably the ones off shore that actually don't care about or even know their tenants)

The first home buyers with mum and dad's equity, will still buy (they just need to wake up and realize they can't afford to buy where mummy and daddy live) (first step on the ladder may mean a commute).

And now the people who are new to investing and supplying rental properties will be scared off. The ones that would actually look after their tenants...

where do you see the ending? All state supplied rentals? (apart from the offshore millionaires)

You want less investors in the market, to lower house prices...introduce debt to income restrictions (until it calms down). You won't make any money off it. But it would actually help the housing crisis. Without hurting those at the bottom and those on the next rung up trying to plan for their retirement.

Thanks for reading

s 9(2)(a)

PUB-0155

From: s 9(2)(a)
To: Policy Webmaster
Subject: Interest limitation rule submission
Date: Wednesday, 7 July 2021 7:44:34 PM

To whom it may concern,

I oppose to the change that the Labour Party has proposed for interest deductibility. Many New Zealanders have rental property including Mums and dads with just one additional property.

If every other business in the country is able to deduct expenses (including interest charged), then this plan is flawed.

Number of heavy property investors I know and talk to regularly regarding this issue propose to increase rents as a way to recover part of this cost.

This change not only affects the landlords, but tenants also. The tax gain from this is short sighted.

Thank you

Sent from my iPhone

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Interest limitation rule
Date:	Wednesday, 7 July 2021 8:51:47 PM

I would like to express my opposition to the changes regarding taxation of income derived from investment property.

Like many of my friends, I was struggling to get on the housing ladder. However, rather than look for handouts or a leg up from someone else, I decided the best way to get myself in a position to purchase my first home, was to invest in an investment property. Even if it wasn’t what I wanted to live in myself. Whilst I continued to rent, I bought a property that I could afford and rented it out. The only way that the maths on this added up, was the ability to offset the income I received, against interest I was paying to the bank. After 3 years, I sold my first property and used the equity I had gained to reinvest in something better. Again, whilst still renting myself. I did this a few times over until I had built up the equity to get into the market for myself. Without this so called loop hole I would have been stuck, unable to get on the ladder.

Large scale investors (6+ properties) and people with only once investment property should not be put in the same category when it comes to taxation on investment property. This ability to offset income isn’t a loophole. It’s a way to get people into the market and set themselves up for future home purchases, or for Mum and Dad investors to provide a leg up for children.

I sincerely hope you reconsider this change and consider promoting investment properties as a way onto the ladder, rather than treating small scale investors with the same scourn as multi property owners

Regards,
s 9(2)(a)

Sent from my iPhone

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Wednesday, 7 July 2021 9:28:38 PM

To Whom this may concern,

I am disgusted by the government in changing the rules of working class/ middle class people who have worked extremely to be able to buy another property to go towards retirement.

s9(2)(a) I have worked from a young age, and come from a low income house hold. I have worked extremely hard to better myself and not sat down and had hand outs from the government.

I have made commitments to better myself for my family and children to ensure they have the drive to do better for themselves too.

What this policy is doing is just giving investors more ability to buy and the people in the middle more chance to stay a lower income.

What the government are doing is not working and the continue to make this worse. We need to be investing the time and effort into other things such as a young people to have experience and understanding in business.

I hope this isn’t passed and honestly hope this government can do something for all the hard working people paying all these taxes every day and holding this country afloat.

If they do this - I will look at leaving and investing my skills else where, and I’m sure many will.

Yours sincerely

s 9(2)(a)

PUB-0158

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Wednesday, 7 July 2021 9:52:11 PM
Attachments:	s9(submission.docx

Subject: Design of the interest limitation rule and additional bright- line rules

Name: s 9(2)(a)

Background: Small property investor – for my own retirement

Recommendations:

I disagree with the entire legislative change because that undermines and against the NZ tax system that allow business expenses to be claimed. This seems to target a single asset class and will add complexity in to simple and relatively robust NZ tax system. I think that the proposal should be scrapped in its entirety.

Chapter 5 – a deduction should be allowed at the time of sale - if the sale proceed is going to be taxable. The income already been taxed during normal tax year. Therefore the total interest paid that un-deductible should be able to be claimed as a deduction. If there is any residual loss, this can be carried forward to future tax year.

Chapter 6 – Development exemption. Any renovations, especially adding a bedroom to the property, should be covered under this exemption. This new bedroom is adding to the housing supply. And major renovation that cover more than 50% of the house is also extending the life of the property. The submission to council for an update property file can be used as proof to be an exemption to allow continued interest deductibility for this property.

Chapter 7 – the adding of another bedroom, as mentions above should be classified as a complex new build too as is increasing the capacity of housing supply.

Chapter 8 – the new build exception should apply to at least three early owners for a minimum fixed period of 25 years from the date of CCC is issued. Otherwise, the new build could suffer a significant price correction when came time to be sold.

Chapter 9 – No new fields should be added to income tax forms, as this will just make it more complication come tax return time, which could increase compliance cost for residential property investors. No need to add further complexity to NZ tax law system.

Further detail and history:

Impact- the impact this proposed legislative change will affect me in both financial and mental well-being. Financially it reduce my saving for my retirement whilst trying to provide rental properties for future tenants. This could means rents increase will be more aggressive to reduce the lost from interest un-deductible, which reduce my tenants ability to save for their first home deposit. This legislation seems to go against the intention of the proposed legislation "to tilt the playing field away from property investors and towards first home buyers".

Additionally, not allowing the complex build exception like adding extra bedrooms will discourage me from doing this type of renovation. Whilst this renovation will allows more people to be housed in the same property.

Mentally the proposed legislation adds confusion, uncertainty on the tax systems that singles out specific asset classed or specific business activities. It heighten my anxiety and doubt toward my retirement plan since last 15-years. This makes me worry about what is the next change will be that could derail my plan.

Overall, I think this proposed legislation will further reduce supply of housing, which will increase both rents and property prices, but not helping much to first home buyer, and that is complete opposite to the objective of this proposed legislation. Therefore, please delay this propose legislation for another 24-months for more detail consultation.

I am not property speculator, just a small property investor trying to plan and provide for my own retirement and not be a burden to NZ government. I can be contacted s9(2)(a) [redacted]

Thank you.

s 9(2)(a) [redacted]

From: s 9(2)(a)
To: Policy Webmaster
Subject: Interest limitation rule
Date: Wednesday, 7 July 2021 10:49:59 PM

Hey government officials;

Please don't play with our way of helping the country have houses to be used by those who can't afford to buy their own.

We in the family does not support this.

Depreciation of domestic rental buildings was already scrapped. What more do you want ?

s 9(2)(a)

From: s 9(2)(a)
To: Policy Webmaster
Subject: Interest deductibility - residential rental property
Date: Thursday, 8 July 2021 4:43:53 AM

Hi there,

I have no problem paying tax on the net income of running a residential rental property in NZ.

I also note this interest deductibility change is referred to as addressing a tax 'loop hole'.
It is not a tax loop hole, it is just the tax law rules in NZ and always has been.

Interest expense is a direct cost to running a rental property and is a legitimate deductible expense, this has always been permitted.

I also support the healthy home changes which drive responsibility back to the landlord to provide warm, draft free, damp free housing to tenants. The indirect cost savings here to the government and ACC would be extensive. Tackling the issue at the source, not just at the end of the line when everyone is sick often as a result of living in a damp cold house.

I do think there needs to be some concessions and/or exemptions for the type of properties to which the new rules apply. For example, new builds recently purchased. Many people fall into this category and the tax payer is not given much time to plan for this change.

If new builds purchased after 27 March 2021 are exempt from this proposed tax change it would be good to consider a phased approach to this tax law change for new builds purchased in the lead up to this date. For example, if your existing housing stock is a new build purchased within the two years prior to 27 March 2021, these residential properties should be exempt for the tax law changes. This would take into consideration the time to build and the recent Covid pandemic timeframes which saw many residential landlords hit with extra costs due to the nationwide lock downs. e.g. empty properties during lock downs.

Thank you for your consideration in this matter.

Many thanks,
s 9(2)(a)

Sent from my iPhone

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Interest deductibility, bright line.
Date:	Thursday, 8 July 2021 5:42:28 AM

To whom it may concern,

The proposed changes to the above are not well considered.

My husband and I own our home, and we scraped together to purchase a small one bedroom unit as a rental property late last year. We do not have children, and it is part of our very long term retirement strategy to diversify our income and reduce our reliance on the government at a later age. Also, it is part of our family obligation to support s9(2)(a)

The proposed changes are incredibly frustrating for a number of reasons. We fully support the wider support of those who are less fortunate than us. However this change to interest deductibility hurts exactly those people. In order to offset the additional tax expense, we will be forced to increase our rent. There is no consideration to those who are unable to be home owners yet, as these are the very people who tenant our rental property. So again, they are impacted by short sighted, targeted legislation, with a "tax the rich" mentality.

Furthermore, a 10 year bright line test is absurd. It does not allow for simple life changes which happen, and penalises anyone who owns property.

Suggest policy thinking that is less divisive and has much more consideration about ongoing implications. Maybe hire an economist!!!

s 9(2)(a)

Get Outlook for Android

PUB-0162

From: s 9(2)(a)
To: Policy Webmaster
Subject: Submission on removal of tax deduction for rental properties
Date: Thursday, 8 July 2021 7:44:24 AM

Hi,

Can you please not make this change because this will make my life hard as a renter.
I am at the moment barely affording to pay the rent and bills. My rent hasn't gone up for 2 years but my landlord has told me to prepare for a decent rent increase next year. They are saying once they can't deduct interest, my rent won't cover costs of owning this house, so they'll increase my rent.
I really can't afford to pay extra $70/week

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Cc: s9(2)(a) [redacted]
Subject: OPPOSED - Interest Deductibility Changes & Brightline Test
Date: Thursday, 8 July 2021 8:38:52 AM
Attachments: image001.png

Dear Reader,

I am unequivocally opposed to the interest deductibility & brightline changes.
As a Landlord of 4 residential dwellings, I understand the importance of healthy warm homes for our tenants, and welcomed the healthy homes changes, as it was a win – win.

These communist changes are a robin hood movement to take more from the hard-working, and give to the undeserved / welfare benefit receivers.
This is flat out Marxism, and an anti NZ society approach to ostracize those that are trying to fix the housing shortage, and provide the housing that the government clearly cannot.

Emergency Housing at $1M< per day??? That is a disgraceful waste of tax payers money, and punishing the private housing sector that are supporting / sucking up the housing shortages and providing the REAL emergency housing, is ensuring Labour is overseeing and witnessing the largest transfer of wealth in NZ history.

What we have is a SUPPLY SHORTAGE of housing. Demand is outstripping supply. So Labour, if you want to retain any credibility in your last 4 years in government – build, build, build like the boomers did!
I hope we see a change of government next election, for the poor society's sake, as I only see rental increases (I have just put all my tenant rents up) and exponential housing growth, further locking 1st home buyers out of the property market.

So thank you Labour for assisting me with my financial goals, instead of helping the less privileged – you bunch of incompetent muppets.

Best Regards,

s 9(2)(a) [redacted]

hazero
safer working environments

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 8 July 2021 10:35:09 AM

To whom it may concern,

Thank you so much for taking the time to read this submission.

I am an investor who buys blocks of flats that are in a moderate state of disrepair and then upgrades them to be modern, comfortable and healthy.
Any rental profit is reinvested back into the property.

The cost to renovate a 2 bedroom unit runs anywhere from $30,000 to $60,000 depending on the state of disrepair.

The changes to the interest deductibility laws will affect me somewhere in the vicinity of $33,000 and will have a direct impact on whether I can upgrade the units in my portfolio that need it or not.

While much has been made about these changes putting upward pressure on tenants rent, **I believe the real hardships to tenants will come in the form of reduced quality of rental residences.** And I believe this reduction in quality of residence will be widespread due to landlords reduced ability to afford regular and meaningful upgrades.

Reducing investor demand within the first home buyers market is clearly one of the governments objectives, and this is entirely understandable. **However, this sort of property with multiple dwellings on one title is clearly being run as a business and would never be bought as a home.**
As blocks of flats are exclusively bought as a business endeavor and not as a home, there is a very strong argument for multiple dwelling sites to be classed as a business and taxed as such. These properties add nothing to the pool of houses available for homeowners to purchase.

In summary;

- **The quality of rental residences will be greatly reduced due to the extra tax burden, further adding to the unhealthy living standards of many tenants.**

- **Multiple dwelling sites should be classed as businesses as they don't reduce the pool of houses available to home owners.**

Thanks again for taking the time to read this submission.

I would love the opportunity to answer any queries any of you have, feel free to email or phone me any time.

Kind regards
s 9(2)(a)

From: s 9(2)(a)
To: Policy Webmaster
Subject: [SPAM]Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 8 July 2021 11:36:00 AM

I would like to make the following submission regarding proposed upcoming property rules.

Historically residential property investment has been a good choice for ensuring stable income in retirement compared to other options such as interest bearing investments or share based investments. The proposed changes relating to interest deductability change the playing field significantly in this respect, so that people will be less likely to make this choice for retirement, and indeed this is the intention of the proposed policies in an attempt to dampen the housing market.

However phasing out deductability of interest for existing residential property owners may result in undue hardship for people who have historically chosen residential property investment. This will result in people having to reduce portfolios, or get out of residential property investment altogether, therefore becoming more reliant on other less stable income in retirement, or even worse burden the national superannuation system further in times when the government has recognised that reliance on government funded retirement schemes in unsustainable, due to the aging population. This situation may be most acute for people who had only recently decided on investment in residential property due to current high property values and resulting high loan levels. In addition, the prospect of significant interest rate increases in coming years from the current historic lows will increase levels of hardship and forced sales for people who find themselves overcommitted.

I propose that the new policies regarding deductability of interest on investment property should apply **only** to new property investment, after the governments announcement in March 2021, and not to existing investment property. That is, the governments proposals relating to 'grandparented' interest should be scrapped, and people who acquired properties prior to 27 March 2021 should be able to continue deducting interest costs as long as they hold the property.

This mean that new investors are able to go into the property market moving forwards with a clear understanding of the landscape, and make decisions accordingly, rather than slam-dunking existing investors, who entered the market in good faith based on existing policy, with abrupt changes in policy.

If discussion is required I can be emailed at this email address.

Thank you

s9(2)(a)

From:	s 9(2) [redacted]
To:	Policy Webmaster
Cc:	Dr Deborah Russell
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Thursday, 8 July 2021 11:42:20 AM
Attachments:	Design of the interest limitation rule and additional bright-line rules.docx

To whom it may concern,

I wish to provide a submission to the proposed tax changes in relation to Design of Interest Limitation Rules and Bright-line Rules. Please find attached, my submission.

I also confirm that I am happy to be contacted for any further input or clarification if required

s 9(2)(a) [redacted]

8th July 2021
C/- Deputy Commissioner, Policy and Regulatory Stewardship
Inland Revenue Department
P O Box 2198
Wellington 6140

I wish to provide a submission to the **Design of the interest limitation rule and additional bright-line tests**. I also confirm my availability for contact if required:
s 9(2)(a) [redacted]

Executive Summary

I personally wish to convey my agreement with the aspirational outcomes outlined in Chapter 1 (1.2) as they pertain to ensuring all New Zealanders are housed in a safe, dry environment, supporting more sustainable house prices and creating a market which is more responsive to current and future requirements.

In addition to these outcomes, there is also a need to address a growing wealth inequality in our society and the resulting issues this brings. Although this should also be balanced with ensuring that reducing one area of potential wealth inequality in our society does not exacerbate another one elsewhere. The feedback I wish to provide covers two key areas:

1. **Concerns around proposed policy which directly counteract the objectives** outlined in **Chapter 1 (1.5).** These unintended outcomes include:

    - Restricting supply of existing properties for sale and driving prices higher.
    - Removing an existing path for first home buyers entering the market.
    - Encouraging property speculation through "house flipping", driving prices higher.
    - Increasing generational wealth inequality in NZ society.
    - Financial instability due to tax rates potentially exceeding 100% of income.
    - Negative impacts on the wider economy caused by greater levels of complexity, compliance costs and fraudulent behaviour, while also reducing the ability to address any changes to the market in the future.

2. **Minor amendments proposed** to the policy to address the concerns highlighted above:

    - Relief for removal of interest deductibility on at least one rental property purchased before March 27 2021 (grandparented).
    - Widening the proposed bright-line relief (as covered in **Chapter 10**) to include "extraordinary circumstances", provided the situation still meets the requirement regarding no significant change to ownership.
    - Widening the proposed bright-line relief to include subdividing and building a new house on existing land which is still within the bright-line period.
    - Scaling the tax paid under the bright-line test to reduce over time.

Concerns around proposed policy which directly counteract the objectives outlined in Chapter 1 (1.5)

Restricting supply of existing properties.

The Bright-line test is a taxable amount paid on the sale of a property. Therefore it is acting as a deterrent to sell investment property and restricting supply. While there is a view that extending the bright-line period will act as a deterrent for purchasing investment property, the reality is that it makes little to no difference at all to investors who will simply hold their investments longer to avoid this.

With the recent increase to 39% of the top tax rate, coupled with current housing inflation, most sellers will be taxed at the highest rate of tax, meaning these are very strong dis-incentives sell. With the focus on seeking ways to increase supply into the market as one way to address unsustainable prices, extending the bright-line test and increasing the tax rate on selling property runs directly counter to that objective.

Removing an existing path for first home buyers entering the market.

“Rentvesting” is a term commonly used for the practice of purchasing an investment property while the investor themselves remains a tenant. It is one of the most effective ways for first home buyers to get on to the property ladder. The largest challenge for first home buyers is the size of a deposit required to buy a home in an area which is practical for them to live for work. This is exacerbated when housing inflation exceeds the rate of which the first home buyer can save.

However rentvesting enables a first home buyer to purchase a property in any area they can afford which can then be rented out. Any future gains can be used for a deposit on their first home they can actually live in. More importantly the gains from the property will ensure the level of saving for the first deposit is kept in line with housing inflation. Removing interest deductibility on all investment property in a blanket coverage approach for all investors will simply eliminate this path for younger first home buyers.

I personally took this approach to get on the housing ladder and would be very unlikely to have ever owned property without it. Looking back I can safely say that if the proposed policy initiatives were brought in when I was a first home buyer, they would have made it more difficult for me, not easier.

Encouraging property speculation through "house flipping", driving prices higher.

The initial bright-line test of 2 years was deemed necessary to curb unsustainable price rises caused by property speculation through the practice of house flipping. Prior to the introduction of the bright-line test, it was possible to agree to a delayed settlement date of 3 months when purchasing a property, then sell the property to a new owner on the same day as settling on the original purchase with a significant tax free profit. However forcing these speculators to hold a property for 2 years as the initial bright-line test did, suddenly made this practice less attractive.

Alternatively, increasing the bright-line test from 2 years to 10 years ironically makes rampant speculation through house flipping more attractive again. The reason for this is that the tax rate on a property owned for 3 months will be the same as tax rate as a property owned for 9 years and 11 months. The effort is much less and the accumulated profit from house flipping multiple times is significantly more than renting a property over the same period. Subsequently, it is likely to drive house prices even further away from the sustainable levels presently strived for by the government.

Increasing wealth inequality.

Removing interest deductibility in a blanket approach means that rentvestors and accidental landlords with one property are treated the same as large scale investors. Rentvestors with one property are essentially first home buyers who have just got on the housing ladder through an alternative means. Accidental landlords are typically property investors who have ended up as such through an unintended set of consequences, some of which were significantly negative experiences for them. These investors are typically least likely to weather the removal of interest deductibility.

Large scale landlords will have the ability to respond to the removal of interest deductibility by simply de-leveraging some of their many properties. Similarly, wealthy individuals who don't require lending to acquire property will not see any impact at all by this change.

If removing interest deductibility fails to take into account this impact imbalance, the outcome will be to significantly tilt the balance towards wealthy property investors by simply knocking out a majority of their competitors and enable them to drive rents higher for even greater returns.

Causing financial instability due to tax rates potentially exceeding 100% of income.

While there is an understanding that removing interest deductibility for properties purchased after March 27 2021 should have a desired effect on reducing demand for investment properties. There is a lack of understanding on how grandparenting this tax approach to include investment properties which had already been purchased will reduce demand.

As an accidental landlord myself recovering from a significantly negative financial event, my tax rate will increase from 33% of income to 174% of income. Leaving aside questions regarding the logic of setting a tax rate higher than the level of income, the fact is that this will significantly alter my overall personal finances.

If there had been any indication at the time a previous purchase decision was made of these significant changes to the business model, many investors would likely not have pursued this path. Furthermore, many newer investors like rentvestors and accidental landlords are prohibited from exiting their position without paying the 39% bright-line tax. Therefore grandparenting these changes will trap many people into financially damaging situations which they will be poorly equipped to deal with.

Negative impacts on the wider economy caused by greater levels of complexity, compliance costs, fraudulent behaviour, while also reducing the ability to address any changes to the market in the future.

It is understood that negative consequences from the proposed changes are expected and measured against any potential trade-off for benefits. However, consideration should be given to other mechanisms to achieve the aim of reducing investor demand that do not involve such complexity to implement and manage.

As an example, part of the reason for the success of LVR's as a mechanism is that they can be applied specifically to groups such as investors, they are easy to change either way to meet ever-changing market conditions and they do not involve a significant time-consuming consultation process each time a change is made. Whereas the proposed approach to use a significant alteration to the tax policy has already taken up valuable time that could have been used to address the problem. Further to that, it makes things more difficult if in the future the market changes to a point when there is a need to encourage property investment.

Other areas for consideration:

- Removing interest deductibility will thrust a number of investors into becoming eligible to pay provisional tax which they have not forecasted for.
- Impacts on altering the financial status of an individual with regards to obligations such as child support payments.
- The cost of monitoring compliance by Inland Revenue.
- The cost of confusion caused by different interpretations of grey areas.
- The potential for an increase in fraudulent behaviour from increased complexity.

Minor amendments proposed to the policy to address the concerns highlighted above

While some of the issues raised above will run counter to the intention, there is an acceptance that political pressure will mean that making significant changes is highly unlikely. Therefore the proposals below are simply minor amendments to the policy as opposed to any recommendation to completely remove anything entirely

Relief for removal of interest deductibility on at least one rental property purchased before March 27 2021 (grandparented).

Chapter 3 in the proposal document covers the topic of “entities affected by interest limitation”. I propose that rentvestors and accidental landlords be protected from removing interest as a deductible cost. As mentioned above, rentvestors are first home buyers and accidental landlords are typically victims of circumstance. Based on their ill-equipped ability to deal with such a change and the possibility that exiting their position could incur the bright-line test means that the financial impact to them will be severe.

Considering these relatively vulnerable groups have not had the ability to make an informed decision due to purchasing before the March announcement and they are not competing with first home buyers in acquiring additional property, they should not be included on interest limitation. The easiest way to identify these groups is to **provide relief to one investment property provided it was purchased before March 27 2021.**

Widening the proposed bright-line relief (as covered in Chapter 10) to include "extraordinary circumstances", provided the situation still meets the requirement regarding no significant change to ownership.

There are situations not covered by the proposed changes on rollover relief to the bright-line test. My own example includes the former family home which has been owned for 10 years already. Through a series of events, whereby a high court judge assigned an independent trustee to the trust owning this family home, I purchased it from the trust in 2019. Due to the state of the property being damaged by my former partner and her drug addiction, the alternative was to sell the property for a loss. Unfortunately because this is considered a new transaction, I effectively have an unintended bright-line period of 13 years.

The ownership structure has remained constant and there is a clear path to show that any gains made on the property over and above renovation costs were actually considered recouping the loss caused by the situation I found myself in through no fault of my own. Similarly, the hope of getting any such property relationship agreement with a drug addict would be next to impossible.

Having the ability to present such a unique situation which still fits the parameter of retaining the same ownership structure and is based on the directive from a high court judge would help cover unique situations such as this.

Widening the proposed bright-line relief to include subdividing and building a new house on existing land which is still within the bright-line period.

Presently any developer can build a new house and sell it without having to incur the bright-line test. However if a new house is built on a piece of land which has been subdivided from an existing investment property, the new house will incur the same bright-line period as the existing house. To avoid this acting as a deterrent to increasing much needed supply to the housing market, it is recommended that new builds on subdivided land be treated separately from rest of the original property as it pertains to the bright-line test.

Scaling the tax paid under the bright-line test to reduce over time.

The bright-line test as it is proposed in the policy document makes no differentiation between short-term speculators and long-term investors. While it is preferred that both parties are discouraged from purchasing property as a way to seek more sustainable house prices, far more damage is caused by speculators through the practice of house flipping.

If the bright-line test is to be extended as an attempt to negatively impact long term investors, as well as short term speculators, then there should still be some element of separation between the two. One way to achieve this is to apply a higher rate of taxation for shorter periods of investment ownership.

By way of example, owning an investment property for 6 months could attract a 39% tax rate, whereas owning an investment property for 6 years could mean a 10% tax rate. Also reducing the tax rate would ironically lead to more tax revenue as it would be less of a deterrent. It would also release more property on to the market. In fact going even further, by also offering a short-term amnesty on the bright-line test for properties purchased before March 27 2021 would allow investors to more immediately exit the market to accommodate the proposed changes and also provide a tactical shot in the arm to housing supply available to purchase.

From: s 9(2)(a)
To: Policy Webmaster
Subject: [SUSPECT SPAM]Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 8 July 2021 2:14:39 PM

Summary - My submission relates to the definition of a new build specifically around the issue date of a code of compliance certificate and how this could have unintended consequences for the government reaching its objectives of increasing the housing stock.
I have also provided feedback on the period of exemption in section 8.20

In the media statement Revenue Minister David Parker said: "The proposal to exempt property development and new builds should help boost supply by channelling investment towards increasing housing stock and away from direct competition with first home buyers and owner-occupiers for existing housing stock."
My submission is to align the code of compliance date for a new build property with the earlier Labour coalition governments housing announcements in December 2017 that more houses needed to be built.

Investors whose strategy was aligned with the Labour Government's strategy from 2017 and invested in new builds to increase the housing stock will now be disadvantaged by not being able to claim interest deductions and incur negative cashflows due large increases in taxation. Potential interest rate rises in the near future will compound these cashflow losses and delay further investment in new housing stock and therefore assisting with the government's objectives.

My situation is a good example. I settled on a new build property in February 2021 with a CCC dated November 2020. The tenancy agreement for the new homes first occupants commenced 8 March 2021. My tenants get the all the benefits of a new built healthy home however myself as the investor misses out by two weeks for this exemption under the rules proposed. My new projected cashflows for an existing home will prevent me from continuing my investment in new housing stock and assisting the government's objectives.

Re period of exemption.
I support the proposal for a fixed period for both early owners and subsequent purchases for a period of at least 20 years.

Thankyou for considering this submission.

Regards,

s 9(2)(a)

PUB-0168

From: [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 8 July 2021 2:47:36 PM

Hi there,

I am writing to vote against the proposed interest deductibility change on property.

I have several businesses and employ a handful of people, in my business I am allowed to offset interest expenses as a legitimate business expense.

Why not for property investment. It makes no sense.

Regards,
[redacted]

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 8 July 2021 2:52:03 PM

Hello,

I am against the idea of taxing revenue received from residential property investment (rent) before deducting interest costs as this breaks a fundamental principal of business and taxation that costs should be deducted from revenue before determining profit (income). It's OK to tax profit, but it's not ok to tax revenue before costs such as interest are deducted.

I borrowed to purchase two investment properties which I hope to pay off to fund my retirement and my families costs after I retire, such as education and health. The proposed measures will affect the quality of life of my family as I age as I will have to stay in the workforce longer, however won't do anything to lower the cost of housing or make more houses available.

As a final comment, the proposed changes are legally contestable, as mentioned they break a fundamental principle.

Many thanks,

s 9(2)(a)

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Thursday, 8 July 2021 2:53:43 PM

Honestly, I think it's not fair to punish those who bought when these rules aren't in place. People have bought investment property with rules that exists at that time. Any new rules can only apply to newly bought properties but not to those which were bought before interest deductibility rule.

For example, we sign any contract with the information we have at that point in time, changing the rules for already bought properties isn't fair.

Is it fair to ask a government to step down due to what we believe now? They were elected based on people votes before, we can't come in now and change rules for the action that has happened in the past.

From: s 9(2)(a)
To: Policy Webmaster
Subject: "Design of the interest limitation rule and additional bright-line rules"
Date: Thursday, 8 July 2021 3:02:45 PM

To Whom it May concern
I would like to make a submission on the above changes the government have brought in.
My daughter has 3 young children and separated from her husband after 15 years.

With the rents being so high $550 - $800 per week for a 3 bedroom house.It was out of her reach being on a benefit and working part time.

I brought her a house as it lets her live with in her means and now I will be punished for doing so

Not everybody has brought a second home to make money - some have brought a second home just to help family out and it is a family home

I am paying the rates Insurance and topping up the mortgage as she cannot afford to pay everything

I think there should be a clause to cover situations like this as i will not be making any money out of this situation(if anything I will loss money) and i did not buy as an investment - I brought it for a family home for my daughter and grandchildren

I hope someone does take notice to situations like this

Thank you for taking the time to read my email

Kind Regards
s 9(2)(a)

From: [redacted]
To: Policy Webmaster
Subject: Interest rates deductibility.
Date: Thursday, 8 July 2021 3:12:00 PM

Hi

Thank you for giving us a chance to raise our concern regarding interest rates deductibility.

First, in business they can claim all types of expenses and why are they singling oit homeowners with Investment property.

We are not speculators, we tried to keep our property for long term so that when we get old we will not rely on government pension to live by. We want a descent life when we get old, we work harder to have a good life when retire.

Not all have more than 3 or 5 houses, we just want a comfortable life and something we can pass on to our children as our legacy.

We are immigrant here, we work hard our ass day and night to get to where we at now. It is doable considering we started working in the factory and work our way up. This tax will hurt us, definitely we will sell as we can no longer service our mortgage if that is not deductible.

We are planning to build at least 3-5 townhouses but considering the RC and BC are too expensive and too slow and we are loaning money from the second tier lender so again this will impact our position.

Not all IP investor are speculators

We are here long term investors and we should not be funish for providing houses to those who can't afford.

Problem is the lack of supply and the RC and BC approval so much red tape.

We want a decent retirement when we get old. We already paid too much taxes and just went to those who are on benefits and what is hurting you can see some on benefits having a good life at the tax payers money.

Anyways, I hope this can be sort out and not pass into law, and if they will pass it i hope they can address the councils RC and BC to expedite the processing so more housing will be build.

Thank you.

Sent from my iPhone

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Thursday, 8 July 2021 3:15:26 PM

To whom it may concern,

I wish to express my concern and direct opposition towards Labours proposed interest deductibility change.

As a single father fortunate enough to scrape up enough money to mortgage an investment property in January of this year, am now being hit with harder tax laws that jeopardize my ability to now afford this. This was a plan to save for my retirement.

I believe that the majority of landlords are not the wealthy or upper classes, but rather the struggling middle class who are mortgaged up with one or maybe two extra houses in an effort for a better future. Adding an extra tax has changed the financial circumstances of a significant and important portion of our population. This occurred without warning especially as Labour said it would not bring any new taxes.

We all know that when Prime Minister Jacinda Ardern termed this as a "tax loophole" that she is lying. I am sure the committee reading this is intelligent enough to know this and that I do not have to go on about taxes of other business expenditures.

Thank You for your consideration,
s 9(2)(a)

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	[SPAM]Design of the interest limitation rule and additional bright-line rules
Date:	Thursday, 8 July 2021 3:22:51 PM

Dear Sir,

I do not support the removal of interest deductibility. The status quo is OK, and has worked for so many years.
When the Covid 19 pandemic is over, Kiwis will again leave for off shores to where they were previously and the housing demand will ease substantially.

Regards,

s 9(2)(a)

PUB-0175

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Thursday, 8 July 2021 3:24:09 PM

Hi,

I have no problem with the additional bright-line rules, but object to removing the ability to deduct interest.

Our situation is a little different to your typical residential investor. We own two houses which we operate as ‘short term visitor accommodation’ - AirBnB etc. We operate these professionally as a full time business. Due to our income not being derived as residential rent under the Residential Tenancy Act, we are GST registered and pay a healthy amount in GST every two months.

However, because the properties are houses and could be lived in or rented out to tenants, we will no longer be able to claim interest as a business expense if the changes come into place. They do not qualify as an excluded property as they would not be classed as "Commercial accommodation such as hotels, motels, and boarding houses” and clause 2.6 which states…."property that is easily substitutable for long-term residential accommodation (such as homes converted into short-stay accommodation – commonly advertised on digital platforms).At the simplest level, it should include a house or apartment, regardless of whether it is used to provide long-term or short-stay accommodation…..”

I feel that where the property is clearly being used as a full time business and GST is being paid on income, that interest should still be deductible as it is a clearly a legitimate business expense in these cases.

Regards,
s 9(2)(a)

PUB-0176

From: s9(2)(a)
To: Policy Webmaster
Subject: [SPAM]
Date: Thursday, 8 July 2021 3:25:06 PM

Yes I am up for this labour is ruining this country , my parents and I worked very hard finally brought them a place where they can be happily retired and now I have to pay tax on the rent I received from my brothers to help my parents out it’s a joke

Regards

s 9(2)(a)

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 8 July 2021 3:26:27 PM

Re: Consultation on tax changes for property investors

My partner and I are two property investors portrayed as evil and greedy by your government. We own investment properties acquired through a lot of work and effort over the years, with the only intention of securing our future and our retirement when the time comes, rather than relying on government handouts and pensions.

We have always kept our properties well-maintained above what is required by law, turning mouldy, cold and unsuitable accommodation into warm, comfortable and healthy homes that are now occupied by lovely families that have stayed on for years. We have also kept rents at below market rates knowing full well we could achieve much higher rates.

Well, those days are gone. These reforms are taking away deductions that any business can claim as a legitimate expense from running their operations. We have just issued rent increases for all our tenants as we will not be able to provide subsidised housing as a result of this tax grab by the government. And why should we? Are you not aware that we are part of the solution, and not the problem? Or is the government going to step in and provide the hundreds of thousands of new and renovated homes needed in New Zealand? Why are you calling these deductions a "loophole" when they are a LEGITIMATE expense from running our BUSINESS?

Who are you going after next? What business type is in your hit-list to take away from them their hard-earned money to transfer it into the government coffers?

The government needs to rethink this policy as a matter of urgency and at the very least, don't make it retroactive by allowing interest deductions on all purchases made before the announcement . We and countless other made decisions based on a tax system that made sense at the time. This movement of goalposts is unfair, unjustified and will cause a lot of harm and financial distress to thousands, including to your own voters who blindly voted for you thinking you had their best interest at heart. How very wrong they were!

Sincerely,

s9(2)(a)

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Housing Idea
Date:	Thursday, 8 July 2021 3:31:42 PM

Rather than the government spending an upfront amount of approx. $600k to build ONE house for ONE family why don't they loan $200k (no interest) to three First home buyers if the build.
If they stay in that house for a period (7 years??) the $200k loan gets written down to $100k – if they stay for 10 years then the loan is written off.
The positives - You help three families not one, and the government will save $$ in the long term as these three families will look after their house unlike many of the current the state houses that requires the governments appointed agents to fix broken windows, fix holes in the wall, blocked toilets, broken showers, replace internal doors, curtains and carpets. Average 2 yearly cost to the tax payer $40k per house over 10 years. No Brainer really. Blows me away that this isn't in force already.

Oh and one more thing – if your in a taxpayers house and trash it – then you and your family are banned from future taxpayer houses
No Fine Line Just a big thick bugger

Sent from Mail for Windows 10

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 8 July 2021 3:36:30 PM

To whom it may concern,

I would like to make a submission on behalf of myself and my tenants around the interest limitation rules.

I have no issue with the brightline test extension.

However, the removal of interest deductibility will only do two things:

1. Force investors to **raise rents** to make up for the tax on revenue – not profit.
2. Force investors to **minimise other outgoings** – namely, maintenance and repairs will be deferred

Quite frankly, it's an absolute kick in the teeth for landlords who have spent tens of thousands to comply with the healthy homes requirements.

In my personal case, I have a tenant who can't get a HNZ house as there are none available in town. s9(2)(a) [redacted]

I am currently instructing my property manager to raise her rent to $280 per week, and will then raise it another $50 to the market rent of $330 after the required 12 month period.

My tenant will be $80 per week worse off by the end of 2022. I hate to have to do this for her but the tax bill needs to be paid from somewhere and I also have a family to feed. Plus, I'm not running a charity.

The people hurt by this policy are the tenants that need to rent. Not everyone that is renting wants to buy a home, nor has the means to do so.

Regards,
s 9(2)(a) [redacted]

From: [redacted]
To: Policy Webmaster
Subject: New rules about interest on investment properties
Date: Thursday, 8 July 2021 3:42:18 PM

Please stop this change.
We are not all rich, greedy property investors.
My husband and I tried to do the right thing, to provide a forever safe home for our [redacted] daughter, not to palm her off on the state.
We bought a modest 2 bed house [redacted], all we could afford- and she lives there with her dog and a support worker comes in.
If you do this change- we can't afford this house any more.
[redacted], the ONE thing we wanted to avoid!
We are going to retire and then we can't afford it anymore. It is OK while we work, but we will retire in a few years time and then what?
We are NOT the reason people can't buy homes, stop making us the scapegoat.
This was done in an underhand way, an undemocratic way - not what you campaigned on and you are punishing us when we are not the cause.
It is wicked.
Can you not distinguish between people like us, and genuine property investors?
How do you expect us to cope with this, to provide for our daughter when you change the goal posts mid-game (closer to end of game really)?
How very cruel of you.
Disgusted!
So much for being kind....
[redacted]

From:	s 9(2)(a) [redacted]
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright line rules
Date:	Thursday, 8 July 2021 3:42:22 PM

Interest should be tax deductible for long term landlords (5 years plus) to encourage property investors to hold on to their properties creating security for tenants. If a landlord sells a rental property before 5 years, they should have to pay back any interest claimed.

Tax change is unfair on long term landlords who have purchased property under the existing tax rules. Apply the change to landlords purchasing a rental property after a certain date.

Bright Line Test increased to 20 years to encourage long tenancies.

s 9(2)(a) [redacted]

PUB-0182

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Thursday, 8 July 2021 3:47:36 PM

Good afternoon,

I would like to take the opportunity to voice my concerns about the intended changes you are proposing in the document mentioned above.

Housing is at the forefront of people's minds with the increased cost, which is driven by demand, outstripping the supply, this is an ongoing issue in regards for affordable housing for owners or renters.

As I can understand the ring fencing as well as the bright line test changes, but I strongly disagree with the removal of the deductibility of interest.

Having rental properties is part of our retirement plan - as having a mortgage free home, the pension as well as Kiwisaver are not going to be enough to secure a comfortable retirement - as we personally experiencing supporting my parents in law! Why investment properties - this is the only way we can utilise our equity in our home to provide another income stream. This has been a mechanism for hard-working middle income New Zealanders to gain financial security. This independence from state supported 'retirement' is an important financial consideration.

By removing the interest deductibility, the cost will go up for the house owners / landlords and as any other business this cost will be passed on in the rent. As a business all running cost are deductible, why should the interest cost in some specific instances not be? You are already introducing exemption to this rule and that list is quite long which will make this quite confusing.

The impact on rents will be significant as these are already exceedingly high and many people struggling with the overall increased cost of living. As there is not enough housing stock available these people have no chance of finding a cheaper rental or are often not in the position of buying a property. So, these changes are not in line with your objectives to ensure that every New Zealander has a safe, warm, dry, and affordable home. It will probably lead to more people requiring emergency housing - which cannot be supplied - and you have families in motels moving on a regular basis - which must be horrible not having a place calling home.

This change will also not provide more housing stock, so the core problem of demand and supply is not addressed.

As an investor the price we purchase a house needs to stack up - but a first home buyer may be willing to pay more - we have been in many situations where we have been outbid by first home buyers driving pricing up due to no available housing stock! I do feel sorry for these first home buyers as the pricing of houses has gotten so high - lucky that interest rates are very low but that is not going to last forever either.

Another point would be that as a landlord we are required (and rightly so) to ensure that the property is kept up to a standard that it is safe to live in - if we no longer can deduct the interest cost there is going to be less funds available to ensure that. Which again is against your objective of 'every New Zealander has a safe, warm, dry and affordable home'. It may also lead to properties which are not up to the new standards are going on the market and if first home buyers purchase these properties (as nothing else is available) they will probably not be in the position to remedy a major issue on the property.

Overall, I believe that this part of the policy will just make life harder for all New Zealanders - investors, first home buyers and mainly for people which have to rent. The policy quite clearly does not align with the objective it tries to achieve.

Would it not be better to work with the investors to achieve more new builds as well as increase the standard of existing housing. If treated as a business, there could be tax breaks provided for new builds as well as standards which are checked and enforced (for example like every restaurant has a food safety rating). This would be a win win for all.

- More housing stock could be created increasing supply which will slow the pricing hike,
- Avoiding rent increases,
- Tenants living in brand new buildings or up to standard housing,
- providing an opportunity for mum and dad investors to use the equity in their homes to increase the housing stock and help provide homes for people which cannot afford to buy.

Kind Regards,

--
s 9(2)(a) [redacted]

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Submission | Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 8 July 2021 3:49:21 PM

I'd like to submit that I accept the rationale and need for additional bright-line rules to rental properties (only - not family homes that for example, may be rented out for a year!).

The loss of the ability to deduct interest on my rental property will have a severe impact on me, and **I do not think this rule is fair.**
My rental property is my second business - and interest costs are a legitimate business expense. The banks are taxed for the profit they make off my mortgage - and yet I will lose the ability to claim this expense off the income? Not OK.

Here's the situation that I'm in and the impact the loss of interest deductibility will have on me:

1. The primary business I own with my husband has had to have 98% of operations hibernated due to COVID border restrictions.
2. s9(2)(a) [redacted]
3. s 9(2)(b)(ii) [redacted]
4. s9(2)(a) [redacted]
5. s9(2)(a) [redacted]

   s 9(2)(b)(ii) [redacted] **The new rules will force me to sell my only rental property** because I will need to stop working full time to instead work part time to look after my s9(2)(a) [redacted] children whose mental health and wellbeing I will need to focus on. I cannot come up with the extra tax $$ each year.

Bad trajectory with the new laws, and strongly oppose the interest deductibility aspect.

From: s 9(2)(a)
To: Policy Webmaster
Subject: Re: Submission | Design of the interest limitation rule and additional bright-line rules
Date: Saturday, 10 July 2021 7:00:32 PM

Thank you. I insist on privacy in that my name is not published in association with the content of my submission because my husband and I have not told our children yet that he is terminally ill.

Sent from my iPhone

> On Jul 10, 2021, at 6:07 PM, Policy Webmaster <xx@xxx wrote:
>
> [IN CONFIDENCE RELEASE EXTERNAL]
>
> Hi s9(2)(a)
>
> Thank you for your submission on the discussion document – *Design of the interest limitation rule and additional bright-line rules.*
>
> We will be considering all submissions that come in over the consultation period as we prepare the final design of the proposals. If you have indicated it is okay to do so, we may contact you to discuss the points raised.
>
> Our next steps include:
> - considering your submission,
> - reporting to Ministers on submissions and recommending any changes, and
> - progressing any changes the Government agrees to through the parliamentary process.
>
> Any changes progressed through the parliamentary process would be subject to parliamentary debate and select committee scrutiny, including consideration of public submissions.
>
> Submissions may be the subject of a request under the Official Information Act 1982, which may result in their publication. The withholding of responses on the grounds of privacy, or for any other reason, will be determined in accordance with that Act. If you consider that any part of your submission should properly be withheld under the Act please let us know, if you have not already done so.
>
> Many thanks once again for taking the time to submit on this discussion document.
>
> Policy Webmaster
> Policy and Regulatory Stewardship
> Inland Revenue
>
> ---
>
> **From:** s 9(2)(a)
> **Sent:** Thursday, 8 July 2021 3:49 PM

To: Policy Webmaster <xxxxxx.xxxxxxxxx@xxx.xxxx.xx>
Subject: Submission | Design of the interest limitation rule and additional bright-line rules

I'd like to submit that I accept the rationale and need for additional bright-line rules to rental properties (only - not family homes that for example, may be rented out for a year!).

The loss of the ability to deduct interest on my rental property will have a severe impact on me, and **I do not think this rule is fair.**
My rental property is my second business - and interest costs are a legitimate business expense. The banks are taxed for the profit they make off my mortgage - and yet I will lose the ability to claim this expense off the income? Not OK.

Here's the situation that I'm in and the impact the loss of interest deductibility will have on me:

1. The primary business I own with my husband has had to have 98% of operations hibernated due to COVID border restrictions.
2. s9(2)(a) [redacted]
3. s9(2)(a) [redacted]
4. s 9(2)(b)(ii) [redacted]
5. s9(2)(a) [redacted]
6.
7. s 9(2)(b)(ii) [redacted] **The new rules will force me to sell my only rental property** because I will need to stop working full time to instead work part time to look after my s9(2)(a) [redacted] children whose mental health and wellbeing I will need to focus on. I cannot come up with the extra tax $$ each year.

Bad trajectory with the new laws, and strongly oppose the interest deductibility aspect.

From: s 9(2)(a)
To: Policy Webmaster
Subject: Interest on Investment Property
Date: Thursday, 8 July 2021 3:53:32 PM

I am s9(2)(a) I bought a rental property s9(2)(a) because the banks are only paying 1% interest and the cost of everything is going up. After regular weekly expenses, I have s 9(2)(b)(ii) If Labour's new law comes into practice I will be making a loss. s9(2)(a) s9(2)(a)

PUB-0185

From: s 9(2)(a)
To: Policy Webmaster
Subject: I don"t agree with the government"s policy of non-deductible rent.
Date: Thursday, 8 July 2021 3:55:49 PM

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 8 July 2021 4:08:04 PM

Hi there,

I strongly oppose the interest deductible tax law change proposal.

Myself and my wife, we are in s9(2)(a) I work as a s9(2)(a)

We are long term property investors (NOT SPECULATORS). We managed to buy 3 rentals and all our properties are negative gearing. We worked so hard and sacrificed so many things to save money for buying those investment properties. We are still working hard to pay the mortgage and provide best service for our tenants and we are proud to do that.

This new changes to the residential property tax rules are very disappointing as we can't afford to pay the tax on our losses. The only option we have is to sell all our rental properties and look for offshore investment options more likely move to Australia and start building our property portfolio.

These proposed law changes will not solve the housing issue, as the problem is with SUPPLY.

We are always thought of investing our savings in property and we working hard to achieve it. Now with no other options available in New Zealand for us to invest. All our savings will be invested offshore.

Thank you for disappointing the hard working investors like us with the new tax law changes and good luck with that.

Regards

s 9(2)(a)

PUB-0187

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Thursday, 8 July 2021 4:18:14 PM

This will cause many hardworking folks to the wall, where they were just balanced with being able to deduct their small business loan interest costs against their income and can no longer do that.

How does Labour intend to help these folks up after changing the laws under them mid field to avoid major hardship?

PUB-0188

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules" in the subject line.
Date: Thursday, 8 July 2021 4:23:55 PM

Submission for the removal of the proposals for changing the tax system around the above subjects.

Thank you s 9(2)(a)

Sent from my iPhone

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 8 July 2021 4:30:22 PM

I am a s9(2)(a) that is currency renting s9(2)(a)

My family own 3 rental properties and provide warm, dry homes for 3 families, and their pets.

I oppose these rules, as they will end up costing us money to keep these investments for our retirement. We will be forced to sell, which will displace families, and likely force them to move areas, schools perhaps have to rehome pets.

Please reconsider. This affects more than just landlords.

Sincerely

s 9(2)(a)

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 8 July 2021 4:32:48 PM

I do not support any changes to the investment residential rental property rules. These changes are unjust and inequitable. They will not affect the changes to the supply in the housing market that the Government is intending by seeking to increase the supply of housing in the marketplace.

Interest Deductibility for any business is a fundamental business deduction established in tax law and reinforced by the courts and has been so for many decades. To remove this expense deduction is inequitable and result in rent increases being passed onto tenants in order to cover further additional taxes as a result of the inability to claim an interest deduction.

New Zealand already has a capital gains tax on property developers, and a bright line tax rule for residential property for five years. It is not necessary to increase the current bright line test rules beyond the current five year period. Any change will likely casue there to be a reduction in investment in the residential rental supply, meaning that the burden to provide rental housing is then passed onto the taxpayer at a great cost.

--
Kind Regards
s 9(2)(a)

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules" in the subject line.
Date:	Thursday, 8 July 2021 4:40:57 PM

This is another lie told by the Labour Goverment i.e no introduction or changes to existing taxes with the exception of introdicing a new 39% income tax rate above $180,000 of income. This is a fundamental change to both Landlords and Renters adversley impacting both. This was NOT a labour pre-election policy.

This was FORCED through Parliament and should be reversed until such time that Labour correctly anounce this as a policy in their next pre-election for New Zealander's to vote on it .

New Zealand is based on Democracy NOT Socalism

Thank You Kind Regards s 9(2)(a)

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules"
Date: Thursday, 8 July 2021 4:55:39 PM

The interest limitation rule is the one that concerns me.

People from overseas the first thing they do is buy a home, then after a couple of years they realize bugger my kiwisaver is not going to be enough for me to live of, so they mortgage their home and buy an investment property, because their logic is 'when I have retired my home I will sell tge rental and I don't owe anything on my home'.

The new rule well in my case I will have a mortgage until I pass away with this new rule. Because if I sell the rental now I still owe too much on it and therefore it would not make me mortgage free.

Also with the new rule I may have to sell my own home and live in the rental, but then i would have to quit my job and then go on the unemployment benefit as the location of my rental is on the south island and no one buys if the house is not in a location of good schools and employment and my house isn't.

But then again Labour party doesn't care much about yhe working class, only the unemployed and mega rich.

I am aware you may have deleted this email by now but if you want to change it and help first home buyers. You probably should stop buying affordable housing and fix the houses housing NZ already owns.

Regards

s 9(2)(a)

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 8 July 2021 5:10:29 PM

To whom it may concern:

My request is to ask that people that have already increased the housing stock by building new homes to still be eligible for interest deductibility.

(To the same period as if someone were to do a new build, under the new regulations)

Our situation:

We are a couple and over the last 10 years, as a second job, have bought land, and built from scratch 5 new homes to add to the housing stock. They are rented and housing 5 families.

We currently pay tax on any principal paid and any profits. As the principal increases, we increase the tax payment. (This is good, as we want to pay tax and contribute to society)

Taxing on a non income/profit item - interest payments, will place extra burden on the people that are already providing the housing supply.

We estimate it will cost us an extra $12k per year. (At current interest rates) The most concerning, for myself, is the interest rates. If they rise, we will need to pay higher interest AND higher tax on less income.

If I understand correctly it will also increase the tax bracket on income NOT earned. The tax bracket will increase for an expense item. This will be out of alignment with cashflow.

If we gradually put up the rent by $46 plus inflation on rates/insurance etc over 3 years for each property, we will hopefully be able to maintain the homes and keep them in a good condition for the families. This will place a large burden on the tenants but would keep the homes neutrally geared.

If we don't increase the rent, we will need to use tax paid income to pay tax from another source placing a large burden on ourselves.

___________________-

From the research paper that the government had published Dec 2020 they know this will place a level of cash stress on all landlords and renters alike and should be abolished before it even starts.

____

Thank you for accepting this submission

Kind regards

s 9(2)(a)

PUB-0194

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 8 July 2021 5:24:06 PM

I object to the Government wanting an interest limitation rule.

Government has failed to understand a simple thing.....

Create more business opportunities and in return more tax will be created.

Putting more taxes on hardworking people and businesses and investors will only create unemployment, less spending, less growth in the economy.

This Government is actually destroying our future and future of generations to come.

From:	s 9(2)
To:	Policy Webmaster
Subject:	Our Submission from the Wairarapa .....Interest loan deductibility
Date:	Thursday, 8 July 2021 5:27:57 PM

Hi There,

Please please read the below article, this is our wee story. My husband and I are a legitimate business who started buying houses when no one wanted them and these houses stayed on the market for over 8 months several years ago... through blood sweat and tears, and financial stress we rebuilt these derelict houses which were totally unloved and un-liveable......not even power to some.

s9(2)(a) [redacted] and worked our butts off working by day and renovating at night to get ahead. We are a legitimate business set up always paying our taxes, gst and the brightline test not a problem. We manage our own properties ourselves... We love our tenants and our tenants love us, we sit down regularly and have a drink with all our tenants. We take our job very seriously. They will call us directly if there is any issue, we are there on the weekends. We generally don't know what they will do if we sell up as there is nowhere to rent.......it is our business to provide rentals. We have had tenants who have regretted leaving our properties and have since returned after being on a waiting list as they have loved being with us. We do not put rents up just because we do improvements .....we do constant improvements because we want our tenants to love living there. We would live in every single property ourselves, that is the level we wanted to achieve for our tenants and we also work. There are many landlords out there like us.....but we don't get media attention.

We have also provided another 5 families with 5 brand new transportable properties because we could see New Zealand was having a problem.....We are also going to try to provide 5 more brand new properties to the market too if the banks will let us……unfortunately this is no longer the case and we are forced to sell.
We purchased one property a long time ago and we subdivided it into 7 with our hard earned tax paid money to hold with the sole purpose to provide rentals for people who needed them. These we have not taken away from FHBs at all. None of these properties were as we have created the land.
This was in our business plan.
The area we are in has a huge shortage of rentals as does everywhere now.

Now we aren't the ones at the Auctions and we aren't the ones putting in tenders for new properties......we can't afford those prices....we aren't the investors at that level. We are in the business of providing rentals which happened many years ago as we had a business plan. We also had no idea the housing market was going to increase like this.
I don't know a single investor now who can afford to invest in this market or flip a property.

We hoped that Labour would play a fair and honest game….. this is our country too, please listen to the people..... we Kiwis always prided ourselves on all things great......

We are a business and we should be seen as such. We are hard working honest kiwis. I was taught when the going gets tough get another job, work two jobs and at one point whilst I was in a rental with s9(2)(a) [redacted] I had 3 jobs, but never on the dole. I dug it in and worked harder.... I tile, I wallpaper, I fence, I landscape, I dig drains, I crawl under houses to check for leaks. I have no problems paying tax.....but I do have a problem with not being considered a business that I work day in and day out......treat all businesses fairly!!

So please consider this my submission.

Our town is full of Air bnbs and we are one of the very few who actually rents their properties opposed to going for the big money. This allows new families to come into our area to get established to start in our country school. For businesses to get new workers….this is ongoing.
Our tenants are well established in their businesses and in the town, their children are settled in the schools.
WE provide a wonderful service to our community. …..if you can just give it some thought and consider our submission as we aren't the ones costing the government millions and millions in emergency accommodation.
WE aren't the problem……. An exemption for people who run their business in a company like us, this is our business to supply rentals.

Just to note: Currently there are no rentals s9(2)(a) [redacted] which we supply 7 families homes to…….also we supply 5 families rental properties s9(2)(a) [redacted] very short supply. The banks now will no longer lend to us so we cannot provide or build anymore rentals and provide them to the market which was what our intention was to do

We will be forced to put up our rents and we will sell our properties and this will not help. Our first property goes on the market next month.

Please cancel your plans to remove Interest deductibility on loans. This is not a loophole …..it is a legitimate business expense.

Work with us……WE are great people!!!!

Remember ……New Zealand has some amazing business minds to get this country out of debt.

With Kind Regards,
s 9(2)(a) [redacted]

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Tax deductibility
Date:	Thursday, 8 July 2021 5:33:38 PM

To whom it may concern

All our life we have been working, paying our taxes, never received any benefit. We saved payed off our house , bought a rental property to make our retirement easier , so we dont need to ask the government for top ups etc....
Now if we have to pay this extra tax , we are unable to keep to this plan and need to sell. A Government should reward people who try to do better not punish them. We are giving you a job to look after all Newzealnders. But you dont do this , you want to make us middle class income earners poor. Soon you will change the mentality of those people and they will think, why should l do well, l dont get a reward for that, l just go and hold out my hand and the Goverment will support me. Country ruined.
Hope you reconsider this decision.
Kind Regards
s 9(2)(a)

Get Outlook for Android

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules"
Date: Thursday, 8 July 2021 6:38:21 PM

Hi there

How does not deduction of interest is align with international accounting policy?

Why this is only applied to property investors and not to farmers and retails? And not to new dwelling as well.

Property investors pays fair tax as all other business do, so why they are not getting same treatment on expenses.

Property investors are looking after their old age so they don't have to reply on govt but by introducing this policy Government is encouraging more and more people to go on benefit as they get older.

They are about 3 to 4% people who has more than five houses but to punish them govt is punishing other 96% how is this fair. Also people with 30 to 40 houses will not even feel the heat it will be people like us who will take the heat.

Overall property investors are helping govt with state housing issue.

And allowing interest deduction on new dwelling sounds bit stupid as new generation want new houses and now will the investors as well, so kept the competition there, which is not helping your idea of removing the investors from market.

Also tax on gain is fine but it should be a fixed tax rate not on your taxable income rate.

Over the time real investors will still be winning and only will get push out are people like us who trying to build something for retirement.

As by the time we retire govt pension bucket will be empty and if there is anything left still not sufficient to live on with increasing inflation of costs across everything.

Govt should reinstate interest deduction back as how it was, eitherwise this will be the winning policy for all upcoming election, which means govt will be fight over something which should be there in first place and not concerning on real issue of nz economy growth. And before people start selling their retirement plan.

Please consider this seriously .

Cheers,

s 9(2)(a)

From: s9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 8 July 2021 6:53:21 PM

To whom it may concern

I am writing this email to express my concerns regarding the new interest deductibility rules about ti change.

I currently own 2 rental properties in an area of s9(2)(a) . Because of our passion for looking after our tenants, we invest a good proportion of our rental returns back into our properties with the sole intention of looking after our tenants. While you may say that this is also to our benefit, a lot of the things we do are not going to ever benefit us, as they would require replacement in the future.

Should this new tax rule come into place, we will have to stop most of this work as we would not be able to afford it. We would only be able to keep the houses in a tidy state, but without any extra niceties.

In one of our properties we have s9(2)(a) . We are aware of their low income, so we have kept their rent well below the current average. They cannot afford to love out, as any other properties would cost them $200 - $300 more than what we charge them. There is no way they could afford to buy their own home either.

Should this new tax rule come into place, we will be forced to increase their rent immediately. This will result in hardship for this family. If I sold this home, they would not be able to afford any other home in this community as it has seen huge rent increases in the past few years due to such a rental shortage.

I firmly believe that the awnser to our housing problem is to build more stock, and not to tax the landlords. There are plenty of genuine landlords oir there that take a lot of care for their tennants. Taxing them will result in further suffering for these tennants.

Thankyou for taking the time to read this.

regards,

s 9(2)(a)

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: I am against
Date: Thursday, 8 July 2021 7:04:05 PM

Hello,

I am against the change to remove the ability to deduct bank loan interest as an expense in rental properties. This is a legitimate expense not a loophole.

Thanks.

Sent from my iPhone
s 9(2)(a) [redacted]

s 9(2)(a) [redacted]

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 8 July 2021 7:54:10 PM

Hi,

We are not well off and work very hard for 10 years to have rental properties to secure our future as we earn very little money and had the fore sight to see we needed to invest for our future.

Why are we now being penalized for thinking ahead and not relying on handouts to pay for our cost of living.

We look after our tenants and provide warm, comfortable homes s9(2)(a)

We will have to sell when this new rule comes in, where is this going to leave them.

The whole thing is a big mistake!.

s9(2)(a)

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 8 July 2021 8:46:37 PM

I feel I need to make a submission as this has had an affect on people that you are supposed to be helping.
Renters are having to find storage for their items as houses aren't available because being sold or rents going up.
Your good intentions of doing 'Something Bold' is ridiculous, not much thought put into the process at all really.

Please stop.

thanks

s 9(2)(a) [redacted]

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 8 July 2021 9:05:12 PM

Hi,

I disagree with the interest limitation rule and bright-line rules.

They should be scrapped.

Thanks,

s 9(2)(a)

PUB-0203

From: s9(2)(a)
To: Policy Webmaster
Subject: Design of the limitation rule and additional bright line rule.
Date: Thursday, 8 July 2021 9:18:51 PM

Let’s keep this simple, it sux, don’t do it. It is not going to fix the problems you think, and will create many many more. But you don’t listen to people like me, so what’s the point anyway?
s9(2)(a)

Sent from my iPhone

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 8 July 2021 9:25:25 PM

I wish to make the following submission regarding the removal of interest deductibility and changes to the brightline test:

I am just a regular, middle class working kiwi. A few years ago in 2016, I purchased my first home with my husband for a very steep price. It was a struggle and it took us many months of searching and disappointment after many failed tenders. We lived there for 4 years happily until changes in work and family life meant we had to move cities.

We had 2 options, to sell and purchase again in a rush and in a very hot market, or to hold onto it and rent until we had found something we liked. We chose to hold onto our first home and rent it out, while we moved cities and rented a house. It has been a year since we moved and we are still renting because we haven't found a suitable house to purchase.

However, the new interest deductibility changes will have a severe impact on us. Not only are we not able to live in the **only** property that we own through changes in circumstances, we will now be **punished** for owning it and not being able to live in it. We will now have to pay income tax on the full rental income, which will be at a higher tax bracket rate. This income tax comes out of **money that we never even see**, because it goes straight to the bank to pay our mortgage, and yet we will have to magically procure more money to pay tax on top of our mortgage. It hardly seems fair. Do not forget that we are also simultaneously having to **pay market rent** on the property that we are renting to live in. Not only are we not making any money, we are struggling to stay afloat at this point. With a newborn baby and a single income, life is tough at the moment.

So what is the other option? Well, we could sell the property we are renting, but here's the kicker. We have owned it for less than 5 years, which means that we would be required to pay the tax on any gains made when resold. Once that has been taxed, the proceeds of the sale would no longer be enough for us to purchase a similar house in the current market. Sure, our house sold for more than we purchased, but so did every other property. We are at a serious disadvantage against other purchasers and are probably worse off than other first home buyers. Why should we have to pay the price?

I urge the government to reconsider what impact this new change to tax will have on regular kiwis. I am not a property investor, I have very little wealth, but it is people like me who will be hurt the most by these changes, and there are many more people like me.

Kind Regards,

s9(2)(a) [redacted]

[redacted]

W www.caseylindesign.com

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 8 July 2021 9:50:49 PM

Hi
I wish to submit on two aspects of the proposals.

1) New build exemption - transitional rule: exception for certain new builds with a CCC issued before 27 March 2021
I submit that the exemption should apply to all new builds that received a CCC within 12 months of 27 March 2021, regardless of the acquisition date.
The current proposals require an acquisition date after 27 March 2021 to be eligible for the exemption. It is therefore possible to have a property that received its CCC in say January 2021 which if retained by the early owner would not be covered by the exemption as proposed. However if that same property was on sold after 27 March 2021 and within 12 months of the CCC, it would be covered by the exemption and treated as a new build.
As drafted, the proposal penalises the early owner who actually created the new build and results in a different status for the same property depending on if it is on sold or not. It would be possible for the early owner to re-structure their affairs by transferring ownership of such a property to a different entity but under the same effective ownership to become eligible for the exemption. The rule as proposed therefore adds unnecessary complexity due to the ability to restructure around it.
As above, I submit that the exemption should apply to all new builds that received a CCC within 12 months of 27 March 2021, regardless of the acquisition date to avoid unnecessary complexity.

2) Timing of the phase in interest deductions
I submit that the introduction of the reduced interest that is deductible for existing properties held prior to 27 March 2021 should be delayed until the start of the next tax year, 01 April 2022, rather than 1 October 2021 as proposed.
There is still uncertainty around the definitions and eligibility of the new build criteria and thus the exemption from the interest deduction rules. A position needs to be taken for provisional tax payments ahead of these proposals being finalised. This puts the taxpayer in a difficult position trying to estimate tax for the year ahead when the rules are not finalised.
As above, I submit that the introduction of the rules is delayed until the start of the next tax year.

Regards
s 9(2)(a) [redacted]

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Thursday, 8 July 2021 9:50:53 PM

To whom it may concern

I am a young, somewhat accidental property investor. My partner and I were both in good financial positions when we become a couple and, because the rhetoric for so long has been to invest for your retirement, we were able to rent one of our properties out.

We were also in a fortunate enough position to scrimp and save for a second, smaller investment property.

These properties enjoyed very minimal capital gains being in s9(2)(a), until rampant money printing due to Covid19 increased their nominal value in 2020. We have also charged below market rent. It is our intention to hold these properties through retirement (i.e. 30+ years away). The bright line rules are neither here nor there for us.

However, notwithstanding being a circumvention of the normal accounting procedure of taxing profits rather than revenue, the removal of the interest deductibility has already resulted in increases of $1,000/yr for our tenants. This will continue to be the case for the next 4 years until our tax deductibility liability is offset.

With kind regards
s 9(2)(a)

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Friday, 9 July 2021 4:01:33 AM

To Whom it may concern,

I am writing this as a mum and dad investor, who is ultimately looking to retire and be able to support myself and not rely on government handouts, whilst at the same time investing for my childrens future to do much the same.

The fact that it feels as now we are being penalised by investing in property, the reality is my children will require government funding to further their education and when my wife and I retire, we will be at the front of the queue to receive our superannuation money.

I ask that you review the current proposals and help mum and dad investors like my wife and I, who have worked out backsides off to be in a position to purchase our rental property.

Regards,'

s9(2)(a)

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Friday, 9 July 2021 8:51:14 AM

Submission

New Build - CCC within 12 months prior to 27th March 2021
Under the proposed rules an investor who owns a property which received CCC within the 12 months prior to 27th March 2021 will not get ongoing deductions for the interest costs associated, however if this property was sold to a 'early owner' then this person, and potentially 'subsequent owners' would. This appears grossly unfair to an investor who was increasing housing supply prior to the announcement of the government's intentions.

Interest Deduction at time of Sale
I agree that interest deductions should be available against any taxable income on sale (Brightline or otherwise) to the extent, but not greater than, the gain. Excess denied deductions could be carried forward to future taxable property gains (akin to current ring fencing rules)

s 9(2)(a) [redacted]

PUB-0209

From: s 9(2)(a) [redacted]
To: Policy Webmaster

Subject: Design of the interest limitation rule and additional bright-line rules
Date: Friday, 9 July 2021 9:05:32 AM

Morena, I’m messaging about the new housing policies Labour are thinking of bringing in.

My concerns are below: -

* Most landlords will need to consider increasing rents or selling which will have negative impacts on low income families who depend on rental properties. * If rent controls are introduced. How does the government expect Mum and Dad landlords to find an extra $4,000 a year to pay their tax bill without being allowed to increase rent to help find the money? This will cause incredible money stress on single property investors.

* The report about the changes that was given to the govt says the changes would only help the housing crises temporarily, not long term. So this isn't a long term solution, is this just purely to gather more tax revenue from the middle class workers of NZ who don't get any benefits or help from the government so will be more out of pocket? * Lower income families will face challenges whilst renting because of these changes (rent control might help temporarily but you’ll be sinking mum and dad investors financially)? * The report regarding the changes said the changes will only help a small % of people move from renters to homeowners and that lower income families need rental properties as they will most likely never get on the property market. Why is the government so anti rental properties when our country needs them to house people that will never be able to afford their own home? Why does the government keep calling interest deductibility a tax loophole? A rental property is a legitimate business activity and interest deductions are a legitimate business deduction. Are you taking interest deductibility away from commercial renters? No, because it’s a legitim [redacted] ense. Why call it a tax loophole? Thanks for your time. Regards, s 9(2)(a) [redacted]

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Interest deduction rental property.
Date:	Friday, 9 July 2021 9:12:20 AM

I am a rental property owner of 25 years.
We employ lawn and garden maintenance, electricians,plumbers etc to maintain the property to a high standard. We pay tax on our profits.
Our tennants are hard working tax paying low income earners.
Our business is no different from any other business which has debt that needs to be serviced.
The Government needs to increase the supply of housing and not penalise hard working property owners doing a great job that successive Governments have been unable to do.
That is provide accommodation for hard working New Zealanders.
Please reconsider your decision.
Regards
s 9(2)(a)

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule
Date: Friday, 9 July 2021 9:34:46 AM

Dear government,

Firstly may I say I have no issue with the changes to the bright line rules, I agree that people who buy and sell properties to make a quick profit need to be reined in.

However, interest in a mortgage to top up the cost of purchasing a house is an expense directly linked to that purchase and should remain a tax deductible expense.

In my case we bought a house for the security of s9(2)(a) [redacted]. We had half the money and mortgaged the balance. As the house had to be s9(2)(a) [redacted] we were unable to purchase without the mortgage.

The rent she pays covers the cost of rates, insurance and the mortgage. This works while we can deduct the cost of the mortgage interest but once this stops we will have to pay income tax on the rent and as there is no money left from that rent we will have to pay the tax portion from my pension which then puts us under financial stress. Putting the rent up to cover this is not an option we are prepared to take because it would put our daughter under financial stress and she has enough to contend with.

We are stuck between a rock and a hard place, we can't take away the security our grandchildren have found in their new home and we struggle to live ourselves.

Please don't just ask Inland Revenue to send a link to details of how it works, I know how it works and it leaves us having to find tax on $19,308 a year that we receive from our daughter that goes straight out on the mortgage. This may not seem alot but when it is coming out of only a pension income it is huge.

Please listen to common sense in this. Taking away tax relief from a legitimate business expense is not going to change the people who buy and sell for profit. Having to keep your investment for 10 years is a good enough deterrent to do that and genuine investors won't need to be flicking the property within that time, or if they do, they will deserve to pay tax on their profit.

If you have read the whole of this I thank you for your time,
Best regards
s 9(2)(a) [redacted]

From:	s 9(2)(a)
To:	Policy Webmaster
Cc:	s9(2)(a)
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Friday, 9 July 2021 9:43:35 AM

Thank you for the opportunity to submit on the design of the interest limitation rule and additional bright-line rules.

This submission is from s9(2)(a) professional property investors for 10+ years with a portfolio of 10+ properties.

We believe the proposals should be scrapped as we do not believe they will achieve the Government's stated aims and will adversely impact on tenants.

Brightline Rules – This will not have a major impact on our property investment business as we intend owning our properties for longer than 10 years. However, if the opportunity arose to sell a property for example at 8 years due to a tenant asking to purchase the property as has happened on several occasions, we would have to decline due to the tax implications and continue to retain it until the 10-year period had passed. This will have the unintended consequence of reducing the supply of housing to the market which is likely to push up prices and make it harder for first home buyers to purchase a home.

Interest Deductibility - We understand the Government's desire to encourage property investment in new builds rather than existing properties and supporting Kiwis into home ownership. We are property investors and since 2014 have been buying new build properties as rental homes at the rate of approximately one per year. We believe in providing high quality rentals and are investing to ensure that we are not reliant on Government handouts when we retire. However, this new tax law penalises us, the very people who have been doing exactly what the Government is wanting investors to do. The arbitrary cut-off date of 26 March 2021 will mean that new properties purchased over the last few years, including 1 purchased only 5 months before the deadline, will not be entitled to claim deduction of interest costs. The deduction of interest costs is a key tenet of business, and the Government discussion document even confirms (2.48) that this is against accepted tax practice. Why single out property investors who are trying to help the Government achieve their aims? The New Zealand tax system is relatively straightforward which reduces compliance costs. As with all businesses, compliance costs are ultimately passed on to the consumer. The additional cost incurred due to the inability to claim interest will need to be recovered somehow and this will result in us increasing rents and looking to sell properties that are currently home to long-term tenants. This is an unfortunate but obvious unintended consequence of the Government's chosen path. If this must come in, the Government should permit interest deductibility for any property investor who has purchased any property within 12 months of the issue of the Code of Compliance, not just those purchased after 26 March 2021.

Thank you for your time in reading our submission. If you require more information, please contact me.

Yours faithfully,

s 9(2)(a)

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Re Submisson on the design of the interest limitation rule
Date: Friday, 9 July 2021 10:43:16 AM

Dear Sir / Madam

I object that the Labour Government firstly promised there would be no tax increases, yet here we see that this Government now that wish for those who own a rental property will no longer be able to deduct the interest cost and that this could cost as much as $9000.00

There is a shortage of rental properties and too many people homeless in New Zealand, this huge additional cost on owners will be a further burden to either sell their properties or be at the detriment of their renters.

Any company pays their taxes and I believe this is fundamental to tax law that we pay Tax, deduct expenses against it

I hope that you will strongly oppose this going through

Kind Regards

s9(2)(a) [redacted]
New Zealand Encounters & Travel Ltd.
Bayview Valley Lodge, 19a, Tarapatiki Drive, Ohuka Park, Whitianga 3510, New Zealand

s9(2)(a) [redacted]
www.nzencounters.com

View our new and exciting Website

s 9(2)(b)(ii) [redacted]

PUB-0214

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Friday, 9 July 2021 10:43:49 AM

1. We prepare investment for our retirement in this case we won't have burden for government after we retire. Otherwise we will have to use public resource more
2. Prepare for family's future. We have a disable child and we do everything for him not be leave behind without being looked after.
3. Removing tax deductions on interest costs for rental properties is stupid and will have a negative impact on the rental market;
4. most investors were buying for the long-term, while speculators were paying tax anyway.
5. removing interest deductibility is huge and will increase the cost of providing rental properties drastically
6. when the deductibility rules were fully phased in, there would be enough houses being built and that would put the squeeze on the market.
7. the Government labelling the interest deduction a "loophole" was absurd as interest was an ordinary cost of doing business and every business in the world operates with tax deductions on interest

From: s 9(2)(a)
To: Policy Webmaster
Subject: Interest Deductibility & Extension of the Brightline test
Date: Friday, 9 July 2021 10:49:59 AM

The proposed changes are not going to have a meaningful effect on combating rising house prices as the escalation in prices is almost entirely a consequence of demand outstripping supply. The current low interest rates are exacerbating the problem, although this is likely to change in time but to what extent is obviously uncertain. The proof of this being an ineffective strategy is the fact that since the Government's announcement on 23 March 21 there was a short pause in the market and now prices are taking off again. Its is only about Supply and Demand!

One of the unintended consequences of the policy differentiating between new builds and existing homes is it will increase competition faced by first home buyers. The Government believes that it will increase supply of new homes; this is flawed as new builds have been a safe haven for first home buyers and they are now going to face increased competition from investors who will be seize of the advantages that accrue to new builds.

In addition to rising house prices, rents are also rising at an alarming rate and the non-deductibility of interest is going to drive rents up further.

Through Kāinga Ora's need to increase it's stock of housing, the Government itself is exacerbating the lack of supply to the market.

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Interest limitation submission
Date: Friday, 9 July 2021 12:35:01 PM

Hi

I am a residential property investor of 40years

I think the intention to remove interest tax deductablity on money borrowed to finance residential property investment is unfair and inappropriate

This is particularly so for those with existing investments purchased under the existing / old rules.

If you must bring in new rules please make them for purchases after these proposed changes were first signalled.

Applying it to existing investments cannot influence the market going forward so can only be seen as an unfair tax grab

Cheers

s 9(2)(a) [redacted]

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: FW: Interest limitation submission
Date: Friday, 9 July 2021 1:37:54 PM

Further to my submission below

I wish to be heard on this submission if there is an opportunity

My full name is s 9(2)(a) [redacted]

Cheers

s9(2)(a) [redacted]

From: s9(2)(a) [redacted]
Sent: Friday, 9 July 2021 12:35 PM
To: 'xxxxxx.xxxxxxxxx@xxx.xxxx.xx' <xxxxxx.xxxxxxxxx@xxx.xxxx.xx>
Subject: Interest limitation submission

Hi

I am a residential property investor of 40years

I think the intention to remove interest tax deductablity on money borrowed to finance residential property investment is unfair and inappropriate

This is particularly so for those with existing investments purchased under the existing / old rules.

If you must bring in new rules please make them for purchases after these proposed changes were first signalled.

Applying it to existing investments cannot influence the market going forward so can only be seen as an unfair tax grab

Cheers

s 9(2)(a) [redacted]

[redacted]

From: s 9(2)(a)
To: Policy Webmaster
Subject: Fwd: Design of the interest limitation rule and additional bright-line rules
Date: Friday, 9 July 2021 1:26:45 PM

Hi there,

Thanks for supplying the consultation document a few weeks back. In summary, they provide a lot of practical aspects to help property investors (e.g. refinancing and amalgamations etc). I also agree with stopping the attraction of existing houses as investment options.

A bit about us:

At the time of looking into investment properties, we (my wife and I) didn't want to buy existing as we are effectively taking properties from our friends and family trying to get into the property market (which we fully support). Instead we opted to add to the supply and go new. Our pain point is that we completed a new build investment property last year with CCC issued December 2020. Under these rules, we are now being considered as an existing property with interest deductions phasing out, while our neighbour who is building the same property with CCC issued this month, will not have the same interest deduction limitations. This will increase the cost for us holding our rental property while we are trying to provide safe, warm, dry, long term rental accommodation. The change I would make to the new rules would be to allow a property to be considered a new build for interest deduction limitation purposes, if someone purchased a new build, regardless of CCC date. We have increased housing supply and have done exactly what the government is encouraging, only we did it before they recommended it so feel unfairly punished.

Thanks for taking the time to read this.

s 9(2)(a)

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Friday, 9 July 2021 1:47:23 PM

To Whom It May Concern,

I wish to make the following submission in regards to the proposed interest limitation rules:

That an exemption to the interest limitation rule be granted for existing multi unit residential rental properties on a single title.

The reasoning for this is that these properties are not purchased by first home buyers, they are purchased purely as residential investment properties and provide a valuable source of rental stock to supplement that provided by the government.

Regards,

s 9(2)(a)

[redacted]

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Friday, 9 July 2021 2:03:17 PM

Good afternoon,

I would like to give you my view on the government changing the rules so interest deductions on our rental property are to be phased out.
I August last year my wife and I mortgaged ourselves up to the hilt to by a modest 2 bedroom home s9(2)(a) [redacted].
We have a very large mortgage on our family home as well so it is quite a struggle to maintain our position.
Taking into account the interest deductibility of the large mortgage we needed this made the purchase just viable.
As of next year we will be under a lot of financial stress to pay the shortfall of the rental but also now our ever increasing tax bill.

My wife and I think it has been very unfair to change these rules after we have committed to the debt and even though it is introduced over the next 4 years we fell its still not morally right.

Please re consider!

Best regards,
s 9(2)(a) [redacted]

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Friday, 9 July 2021 2:21:19 PM

Buying houses to rent is a business, if you remove the provision to claim the interest then there is no point in having the business model of providing houses to rent then the people who are renters because they cannot afford to buy their own home will have to live on the street.
This is a socially stupid move.
Landlords have it hard enough with people disappearing owing thousands in rent arrears & damage.

Thanking you
s9(2)(a)
www.stickshootersupplies.co.nz

s9(2)(a)

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Friday, 9 July 2021 2:37:32 PM

To Whom It May Concern,

My wife and I own two investment properties s9(2)(a) . In addition, we are building a new home in s9(2)(a) and are currently renting while waiting for the new build to be complete. We are 'Mum and Dad' investors.

Now in our fifties and sixties, we purchased the investment properties five years ago as a way to supplement our future retirement. The only way we could afford to make the purchases was to mortgage them 100%. Initially operating at a loss, we have finally put them into the black (marginally) primarily due to the interest rate drop. We have relied heavily on interest deductibility, and only issued modest rental increases, despite many other cost increases. We have even coped with Labour's ring-fencing policy.
Now with the prospect of interest rate increases, and the ill-advised meddling courtesy of the Labour party's interest deductibility proposal, our plans are at risk of derailing, as we will have to pay more tax rather than paying down our new build mortgage or spending in the wider economy.

And ill-advised meddling it is! As we have seen, the proposal has done nothing to solve the housing price problem so far. Penalizing a group of largely Mum and Dad investors, many of whom are Labour supporters ("former" Labour supporters, I hope), is not solving the basic supply shortage problem. If Labour feels it needs to continue with its overt socialist meddling with the economy, it should be looking at other ways and means, such as focusing primarily on incentives to create new builds, and ways to streamline the consent process.

For us, we may have to liquidate the investments, or will certainly have to raise our rental rates to offset the cost increases. I'm certain this will happen to the rental market in general. Labour could mitigate these inevitable rent increases by simply capping the tax deductibility to something more than zero, perhaps 50% instead, or scrap the proposal altogether. It is immensely unfair to suddenly change tax policy prejudicially to one sector, as has been proposed.

Sincerely,

s 9(2)(a)
[redacted]

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Bright-line test changes
Date: Friday, 9 July 2021 2:37:41 PM

To Whom It May Concern:

Its is my view that change is required in the new proposals, specifically to take account of those people shifting location of work because of a requirement of the company or enterprise by whom they are employed. In many cases such transfer of employment necessitates the renting of the original home while away so that it is available when the worker returns from the assignment to a fresh location. While I understand some provision is intended to be made in respect of such circumstances I believe these exemption requirements are no9t of sufficient length of time and explicit to provide a “safe haven” as is required.

While the intent of the change is clear, I think it unfair and objectionable that while extending the test there should also be an accompanying tax requirement for mortgage payments in respect of investment properties to no longer be deductible from the primary household income source. This unfairly comes to bear, in my view, on younger investors seeking to build up a retirement “nest-egg” or get ahead financially.

Thank you for this opportunity to make a submission.

Yours sincerely

s 9(2)(a) [redacted]

[redacted]

From: s 9(2)(a)
To: Policy Webmaster
Cc: s 9(2)(a)
Subject: Design of the interest limitations rule and additional bright line rules
Date: Friday, 9 July 2021 3:37:30 PM

Hi,
Any policy made should differentiate between New Zealand permanent residents, New Zealand owned businesses and overseas Property investers.
Overseas Residential Property investers, private or businesses, should be restricted in their operations as much as possible, and in my opinion, banned from owning residential property. They offer nothing to the country. They also generally have more money to spend than ordinary NZ permanent residents, who get forced out of the market.

New Zealand owned businesses, should operate like any other business for taxation purposes and should not be penalized by reducing/removing tax benefits or their ability to be flexible in their investments.

New Zealand permanent residents Bright line limit increase.
Young new Zealanders, trying to get onto the housing ladder often club together to buy their first house. These people will want to sell this house to each get a home for themselves in the near future to have families etc. An increase in the bright line would restrict their ability to transfer their accrued capital into a home of their own.
Mum & Dad investers who have rental property(s) are looking to provide for their retirement, so as not to be a burden on the taxpayer. I believe that 1 or 2 rental properties owned by these people should be free of increase in Brightline limits as they generally cant afford a rental property until later on in their lives and 10 years could impact on their retirement funds. These people are not the speculators who cause problems.
Moreover even good plans get altered by changes in personal circumstances. People get divorced etc, so why should they be penalized further. They are not speculators.

New Zealand Permanent Residents Interest taxation reduction/removal.
Mum & Dad rental investers are saving for their retirement. Any reduction in their ability to offset interest against tax would reduce their ability to invest in their future. These people are ensuring they are not a burden on the taxpayer later on in life. Moreover they would be treated differently than every other business in the country. I understand that interest on monies borrowed to invest in shares can be offset against tax. There is no Brightline limit on Shares.

I believe that the whole problem is shortness of housing supply created by a lack of encouragement from successive governments, exacerbated by encouraging immigrant and refugee families without regard for the housing situation. Why should ordinary New Zealand permanent residents be penalized for conditions out of their control and created by lack of successive government foresight.
In addition the materials shortages created by the Covid Pandemic have also had a delaying effect on present building ability. Again why should NZ permanent residents be penalized.
Lastly if immigrant and refugee families were stopped from coming into New Zealand, in the short term, this would give the NZ housing market time to recuperate, as at the moment there is a lot of house building going on.

Best regards

s 9(2)(a)

Sent from Mail for Windows 10

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Friday, 9 July 2021 3:41:15 PM

Following is my submission on the proposed rules on interest deductibility and the bright-line test extension as they apply to residential property.

Many of the rules are at risk of becoming very complex, and some risk a real threat of coming with 'unintended consequences' (for example the main home exemption could become 'compromised' where a home-owner is faced with working overseas or in another location by their employer for a period of time).

As an individual I trust the more informed of our society, chartered accountants, lawyers, professional investors etc will address these more complex issues and I have commented below on only a couple of matters that are of particular importance to me:

- Extension of the Bright-line Test,
- Disallowing of interest Deductions,
- Carveout for Student Accommodation,
- Applicable Dates.

Extension of the Bright-Line Test:

Generally I have no real issue with the extension of this capital gains tax to 10 years however there is merit in considering **an <u>exemption</u> for people who may sell property <u>between 5 and 10 years AND upon attaining retirement age (65years) or taking retirement (ceasing work)</u>** in order for capital to be freed up and used to provide a retirement income for themselves. In many cases the rental property will provide this income (if purchased wisely and yielding accordingly) but in some cases, at this major change in life event, some property owners may prefer to redeploy the capital elsewhere.

Disallowing of Interest Deductions:

The proposal to disallow interest deductions for residential rental property is simply inequitable and contrary to the most basic principles and foundation of New Zealand tax law. This is also a dangerous precedent to set.

<u>This proposal should not be proceeded with</u>, <u>or at least should be modified so that any new rules do not apply to property owned (along with loans in place) at 27 March 2021</u>, with interest continuing to be deductible in these situations.

It is reasonable that people owning property at 27 March 2021 will have made their decisions, acted, and committed to various arrangements, based on the very reasonable view that basic principles of interest deductibility would remain in place. While purchasers after this date could be considered to have been on-alert to the possible new rules and would have incorporated a view on those in their purchase decisions and accordingly it is reasonable that the **<u>interest deductibility rules should remain unchanged for properties owned at 27 March 2021</u>**.

Carveout for Student Accomodation:

As the parent of a student s9(2)(a) [redacted], and being aware of the challenges he has faced finding accommodation the last 2 years, I noted with interest this topic.

The discussion document considers a carveout for purpose-built student accommodation (for example, halls of residence) on the basis that these residential buildings do not compete with owner-occupied accommodation and accordingly this category of accommodation is not seen as being connected with the Government's objective of tilting the playing field toward owner-occupiers.

I would support this stance and suggest that further **<u>the carveout for student accommodation should extend to any student accommodation (for example there are very well defined 'student precincts' around the University of Otago in Dunedin and these should not be treated any differently to halls of residence</u>).**

Using the Otago University example again, there is a very real shortage of accommodation for students attending Otago University and these student properties serve a very real need, and they should not be treated any differently to halls of residence type properties as they serve exactly the same purpose. This would remain entirely consistent with the rationale above as the 'student precincts' are not typically attractive places to live for owner-occupiers and these properties therefore have their own niche and are not seen as competing with owner-occupier buyers.

If the government was worried such an exemption/carveout might encourage the conversion of regular residential rental properties into student accommodation they could easily mitigate this risk by **restricting the carveout policy to properties already rented as student accommodation at a particular date (say 27 March 2021 for consistency), maybe further restricted to properties within recognized 'student housing precincts'.**

Dates:

I do not understand the various dates in the proposal, 27 March, 30 September, 1 October, etc – **why not <u>standardize the various dates so that they all align with the tax year</u>**, ie: 31 March?

This would appear sensible, will simplify tax return preparation for taxpayers, will decrease the opportunity for calculation errors being inadvertently made, and would logically seem aligned with simplifying compliance with the rules for taxpayers (many of whom are "mum's and dad's" rather than large, professional or corporate type investors with their many resources to aid them in seeking compliance with complex rules).

In other words, just make it simple.

Thank you for this opportunity to share some of my views.

s 9(2)(a) [redacted]

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Submission - Design of the interest limitation rule and additional bright-line rules
Date:	Friday, 9 July 2021 3:54:31 PM
Attachments:	image001.png Letter to IRD 210709.pdf

God Afternoon,

Please find attached a submission from the Anglican Diocese of Christchurch regarding the design of the interest limitation rule and additional bright-line rules.

Regards,
s9(2)(a)

s9(2)(a) **Anglican Diocese of Christchurch**
Anglican Centre, 10 Logistics Drive, Harewood 8050, PO Box 4438, Christchurch 8140
☎ s9(2)(a) [redacted]
| ✉ [redacted] | **www.anglicanlife.org.nz** |

Diocese of Christchurch
10 LOGISTICS DRIVE, HAREWOOD
PO BOX 4438, CHRISTCHURCH 8140

Inland Revenue
By Email (policy.webmaster@ird.govt.nz)

9th July 2021

To Whom it May Concern

SUBMISSION - DESIGN OF THE INTEREST LIMITATION RULE AND ADDITIONAL BRIGHT-LINE RULES

I write on behalf of the Anglican Diocese of Christchurch as we are concerned about the precarious circumstances of those Anglican clergy who are required, as part of their ministry in a parish, to live in a vicarage.

Such clergy, who may be required to live in a vicarage until retirement, are disadvantaged in the purchasing of their first house through the unintended consequences of recent statute resulting in:

1. they're not being permitted to utilise their KiwiSaver funds to purchase their first house as, while they intend to live in the house in due course, at the time of purchase they are not in the position to occupy the house immediately;
2. not being in the position to live immediately in their first house purchase, they are required to have a 40% deposit to fund their purchase, it being deemed an investment house; and
3. the inability to offset mortgage interest against rent and therefore paying tax on a fictitious rent compounded by this effecting their Working for Families entitlement.

These criteria make the purchase of a first house nearly impossible for those required to live in Service accommodation, i.e in the case of Anglican clergy, a vicarage. The longer clergy leave it to purchase their first house the further behind they slip on an aspiration to be debt free by retirement.

Within the parameters of the above consultation as to **Design of the interest limitation rule and additional bright-line rules** we propose that Clause 2.18:

Main home means, for a person, the 1 dwelling—
(a) that is used as a residence by the person (a home); and
(b) with which the person has the greatest connection, if they have more than one home

might also include :

(c) OR is considered the main dwelling for future self-occupancy in circumstances where the owner is prevented from residing in the house while being required to reside in 'service accommodation'.

Thank you for considering this submission. I am happy for officials from Inland Revenue to contact me to discuss the points raised, if required.

s 9(2)(a)
[redacted]

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Friday, 9 July 2021 4:35:34 PM
Attachments: Submission by s9(2)(a) [redacted] on the design of the interest limitation rule and additional bright-line tests.pdf

---

Thank you for this opportunity to respond to the proposed rule changes

Please find attached my formal submission

if you need any additional clarification, please contact me on s 9(2)(a) [redacted]

Regards

s 9(2)(a) [redacted]

Submission on: Design of the interest limitation rule and additional bright-line rules

1. Summary of Main Points

- New builds should be treated the same for tax purposes irrespective of when they were built
- Existing property purchased prior to 27th March 2021 should be subject to a capped tax rate until sold
- Tax deductibility should apply to relocating properties if they are beneficial to social housing or low-income family support to enter the housing market

2. Introduction

Whilst in principle I disagree with the premise behind the removal of tax deductibility on mortgage interest, I accept that the government have the right to impose taxation on any income and alter rules to disadvantage certain businesses.

I consider there is a significant double standard when applying the rules for tax deductibility and where the definitions of new build and existing property in relation to the implementation date of 27 March

3. Inconsistency in new build taxation

This concern is centred around the use of an arbitrary date to determine when a property is considered a new build.

Chapter 7 defines a new build, which appears to be appropriate.

Chapter 8 (section 8.4) states that a new build will be exempt from the removal of interest deductibility, which I agree with, as it adds to the housing supply and also provides the best quality accommodation for tenants

Any property awarded code of compliance prior to this date and meeting the criteria for "new" as set out in section 8.6 was still contributing to the net increase in housing, before 27th March 2021, anyone who purchased a new build as first owner before this time still has a "new house" and should therefore remain exempt for the removal of deductibility.

Fundamentally a property purchased new (as defined in Chapter 7) should remain a new property for tax purposes until it is sold, regardless of the commencement date of the rule change. By considering all properties prior to 27th March as "existing" it establishes a double standard in the application of the reduction in tax deductibility.

Consider this:

<u>Scenario 1</u>: all existing properties purchased after the date have no tax deductibility on interest, however, all new properties will have full deductibility – This is fair and is simple to understand and administer, it also could potentially contribute to a reduction in investor demand for existing

properties and will increase demand for new builds, offering a net housing gain to support government policy.

Scenario 2: All property, regardless of status when purchased by an investor, is considered existing and will have tax deductibility removed over a period of time. This is instantly a dichotomy, particularly for those investors who, as this rule suggests, “did the right thing” and invested in new builds prior to any government announcement.

If a rule is to commence on a date, then any benefit of cost should be applied equally, before and after that date.

Suggested amendment

Existing Properties bought prior to 27 March 2021: Staged reduction in deductibility as planned

New Properties bought prior to 27 March 2021: retain interest deductibility

Existing properties bought after 27 March 2021: Removal of tax deductibility applies

New Properties bought after 27 March 2021: Retention of tax deductibility applies

4. The time period for deductibility for new builds

Section 8.15 to 8.20 appear to be at odds with the rest of the rules, everything was new once, and if a property changes owner, then it should be defined as existing and deductibility rules will apply.

If the new build benefit were transferrable, this would actually increase investor interest in five-year-old properties and speculators would look to purchase off the plans and hold until the bright line expires then sell to other investors as tax deductibility will apply making them a more valuable asset in cash flow terms.

Section 8.20 again puts an advantage on any investor purchasing after 27 March 2021 for no reason other than it is an arbitrary start date. Section 8.21 sets out scenarios rationalising exemption length against market price impact.

These scenarios are not representative of the market for first home buyers, it will only impact on smaller investors and will generally result in an increase in rents due to increase in holding costs and a reduction in rental housing supply as some investors leave the market.

Fundamentally, any determination on the period which a property is considered new should also apply to those properties purchased prior to 27th March

Suggested time period

A property should be considered new for a period of 20 years (or whatever timeframe is considered appropriate) from its code of compliance, this should not be transferrable

However, this should also be the guiding principle for determination of the "newness" of properties purchased new prior to 27 March, so a new build from 2011 will retain tax deductibility for a further 10 years until it reaches 20 years old in 2032.

To administer this, investors should provide IRD evidence of the date of code of compliance for anything claimed to be new build.

5. Commentary on rehabilitation of property

Section 7.10 which covered returning uninhabitable dwellings to habitable is an appropriate suggestion which will potentially reduce landfill.

Extension of this to cover relocation of dwellings to be repurposed for social housing or 'let to buy' initiatives for those with limited income should be considered as this will provide a viable accommodation solution in the interim.

6. Suggestion for transitional tax rate stratification

A stratified tax rate for existing investment property would offer less resistance from investors.

Existing Properties bought prior to 27 March 2021: Capping the tax rate on interest to 50% of the maximum rate on income for the borrowing entity would offer a solution which would not only raise a significant tax revenue, but it would also limit the burden on investors, who otherwise inevitably transfer those costs to tenants. This would only apply until the property was sold and would not be transferrable.

(i.e., 50% of the current maximum tax rate of 39% for individuals or 50% of the company tax rate of 28% - this will encourage investors to operate as businesses which will increase visibility of accounts to IRD)

New Properties bought prior to 27 March 2021: acknowledging that investors prior to this date were "doing the right thing" will send a strong message to the market, the first choice would be the retention of deductibility as discussed above. However, even if the rule still applies, limiting this to 20% of the maximum rate will still raise revenue but again reduce the liability being passed on to tenants.

Existing properties bought after 27 March 2021: Removal of tax deductibility applies

New Properties bought after 27 March 2021: Retention of tax deductibility applies

7. Contact Details

I consent to being contacted by officials from the IRD to further discuss any part of this submission.

s 9(2)(a) [redacted] [redacted] [redacted]

PUB-0227

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Interest deductibility Tax Changes
Date: Friday, 9 July 2021 5:26:39 PM

Dear Sirs

blocks of multiple flats on one title is NOT the problem! Please exempt them from this nasty Tax change! First home buyers, or any home buyers, have no interest in buying this type of property. Further, Banks treat it as a commercial operation, so so should you.

Regards

s 9(2)(a) [redacted]

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Friday, 9 July 2021 5:32:12 PM

Dear Sirs

blocks of multiple flats on one title is NOT the problem! In fact it is the solution! Please exempt them from this nasty Interest deductibility Tax change! First home buyers, or any home buyers, have no interest in buying this type of property.

Further, Banks treat it as a commercial operation, so so should you.

You can keep the Bright Line thing if it makes you feel fluffy. Investors are NOT speculators, so this rule is of no interest or concern to us.

Regards

s 9(2)(a)

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Friday, 9 July 2021 5:47:20 PM

Submission on the ‘Design of the interest limitation rule and additional bright-line rules’ Government discussion document, dated June 2021.

In addition to our own home, my wife and I have purchased 2 x residential rental properties in the past 5 years, one within the last 12 months. s9(2)(a) [redacted]

We have deliberately purchased new properties, as we believe these will provide a higher standard of living for the tenants.

While both properties have borrowings against them, we have also displayed a commitment to paying down this debt, rather than extending ourselves to purchase still further properties.

These properties will not be considered ‘new builds’ under the new proposed rules, despite them having many of the same characteristics as a ‘new build’.

Given the similarity of these properties to a ‘new build’, it seems entirely unfair that the interest deductibility is treated differently. We are punished simply because of the timing of our purchases. To use a sporting analogy, it’s a rather unlevel playing field.

Recommendation:
That the definition of new builds is extended retrospectively for a period of 5 years minimum.

In response to the discussion paper, I support the following.

- The interest treatment on refinancing should be carried across from the original loan to the new loan (see section 4.13 and 4.14). This seems a fair approach for people who chose to refinance in light of the changes.
- The new build exemption should apply to early owner in perpetuity and for a period of 20 years for subsequent purchasers. This will help protect the resale value of the property within that period.
- Apportionment rules should be applied to determine the exemption from the interest limitation rule.
- Rollover relief should be available for the interest limitation rules for the 4 year phase out period.
- Rollover relief should be available where property is transferred between a family trustor LTC and its owners and the brightline test should not be applied or reset.

Please feel free to contact me if you require any further information.

Regards

s 9(2)(a)

[redacted]

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Fwd: Tax policy submission on Interest Deductibility
Date: Friday, 9 July 2021 6:23:17 PM

Begin forwarded message:

From: s 9(2)(a) [redacted]
Subject: Tax policy submission on Interest Deductibility
Date: 9 July 2021 at 10:19:31 AM NZST
To: s 9(2)(a) [redacted]

The law change to Interest Deductibility on Investment Properties is highly unfair. It wrongly targets investors instead of addressing the real problem of housing supply, a bit of smoke and mirrors by the government.

Investors are an important part of the community and economy as they safely and securely house many tenants who will never buy a property, taking the onus away from the government to look after these people and these properties. The government needs investors, good ones and the community needs them. I fear these law changes are going to only create a larger gap between the people who already own property and the new younger generation of investors that we need who will now not be able to take that step.

Investors are managers. The bank owns the property, the investor looks after the property and the tenants until it is time to sell at which time you hope you have made a little bit of profit for your work over those 5 or 10 or 20 years, which spread over the years might be about 10k a year more onto your annual salary, and very much earned – there is no free money here. It just happens to come in one lump sum. There is a lot of risk owning a property, the profit made is the balance to this risk.

As I say, this profit is earned. Most investors are people who also hold full time jobs, looking after the property comes at the expense of week-ends and nightly after work hours. It is not an easy task, it requires a certain type of person who can deal with a variety of issues.

They keep the wheels of the local community of trades people greased – painters, roofers, plumbers, electricians, builders, property managers, etc- spending lots of money on the various areas of maintenance required to keep a property. Try not doing any maintenance to a property for 5 or 10 years and see what you've got at the end of it -nothing worth having or living in.

Instead of being appreciated for the important role of investors in the community, investors have been targeted, demonized and now unfairly taxed as well. While we build more houses, we should appreciate the role of the investor, their hard work and contribution to looking after people who need housing until the supply matches demand.

xxxxxx.xxxxxxxxx@xxx.xxxx.xx

s9(2)(a) [redacted]

AJ Hackett Bungy NZ
s9(2)(a) [redacted]
Bungy Warehouse, 3/211B Glenda Dr, Frankton Industrial, Queenstown, NZ 9300
www.bungy.co.nz

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Friday, 9 July 2021 6:28:13 PM

The proposed changes will negatively target and impact a wide group of NZ families

Interest limitation rule

- many families have saved hard for a long time, decided to go without overseas holidays, decided not to upgrade their own home to something bigger and more comfortable - instead they have decided to buy a rental property (one or even two) to secure their financial future when they become older and to help put their children when the time comes on the solid footing for home ownership; they invested from their own pocket making sacrifices elsewhere to upgrade their rental property to meet Healthy home requirements, sometimes at the expense of not having this done for their own home where they live
- the proposed interest rule limitation will punish these families, for their dedication to a financial goal that would benefit them but also help create a financially better New Zealand in the future.
- these families have not done anything wrong to contribute to the first home type housing shortage that is fuelling the competition for them in the market
- these families should not be punished (but should be celebrated and encouraged instead) and made to bear yet another financial burden and keep making further financial sacrifices from their personal income - it is notoriously known that almost 100% or residential rentals have very poor cash flow returns and that the rental income does not cover the outgoings of mortgage payments, repairs, insurance etc... even "as is"
- the proposed change will become a massive financial burden on them and cause stress and mental health issues unnecessarily
- the question is does the government want financially (and mentally) healthy new zealand families in the future, if yes the proposed change will not help this
- having a rental property provides income to lots of people in the community, such as tradies who maintain and repair them (this can only be a good thing) - and this is what the owners of the rental properties are contributing to (not the opposite)

Bright-line rules
- the proposed change is unnecessary as it will affect the people in the change of circumstances scenario to provide justification for selling ahead of bright line- it will not generate tax-income for the government (that is hoped for)
- It is also brutally unfair to tax the 'capital gains' without adjustment for the inflation, maintenance, improvement costs etc...
- Bright line rules will not stop the house prices going up at all (but it will introduce a new tax for the government at the expense of the minority of people in NZ who would have to pay this tax due to the rule change

The only way to get more people into the first home is to **increase the supply of the 'first home type housing' fast in an affordable way: i.e. prefabricated homes, terraced homes (up to 100m2 size) land and infrastructure availability at the shortest possible time, supplementing the building cost of these properties by the government**

Kindest regards
s 9(2)(a)

From:	s 9(2)(a) [redacted]
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Friday, 9 July 2021 7:57:28 PM

To whom it may concern,

My wife and I have purchased two new build investment properties in recent years in order to provide a better outcome for our retirement and to help our (currently young) children out. Part of the reasoning for purchasing new builds instead of existing properties was that it would add to the housing stock and would provide new, comfortable, Healthy Homes compliant housing for people to live in.

While I understand the government's desire to encourage investors to purchase new builds over existing properties, my opinion is that by defining the "new build date" as 27 March 2021, this unfairly disadvantages people such as ourselves who purchased new build properties prior to then, thinking that they were doing the "right thing". This change will turn our slightly positive to neutral cashflow properties into negative cashflow properties to the tune of approximately $109,000 over the next fifteen years accordingly to my calculations. I strongly believe this will prevent us from purchasing more properties which will both affect the retirement outcomes we are trying to achieve and prevent us from adding any more to the housing stock. I believe there will be a large number of people that will be similarly affected to us.

My request to you is to change the "new build date" to a date in the future such as 27 March 2022 after which a property purchased would then be deemed either new build or existing and be subject to the new interest limitation rules.

This would mean people like ourselves would not be affected by these changes which we were not given a chance to plan for. It would equally give people wishing to purchase investment properties the chance to decide whether new build or existing is right for them based on the new rules. Furthermore, it would be more consistent with most legislative changes which are announced to come into effect sometime in the future, not as soon as they are announced. Finally, I believe a newly built house should always be considered a new build, regardless of when it was purchased and is certainly as much of a new build as some of the other definitions of new build in the discussion document which involve altering or relocating existing properties.

I urge that you take this feedback and suggestion into consideration when finalising the changes.

Kind regards

s9(2)(a) [redacted] **Pacific Commissioning**

A: Unit J1, 138 Plunket Ave, Manukau 2104

s9(2)(a) [redacted] **W:** www.commissioning.co.nz

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Friday, 9 July 2021 8:59:32 PM

Hi Team

We have subdivided and build 3 new houses for rental. Our CCC is about 2 years old. This new policy regarding new build only applies to CCC within a year, which is unfair to our situation.

We are building to help with supply, but was penalised by this change. Also our original plan is to build and hold. But if interest cant be deducted before tax, we can't afford to hold and are forced to sell, then we will need to pay capital gains tax under 5 years bright line test, its like double penalty for us.

Hope new policy will take our situation into consideration.

Aslo property investment is a way to secure retirement, we think interest should be able to deducted if person only hold 1-3 investment properties, and can't be deducted if over 3. This will encourage young generation to invest while controlling over hold.

Thanks

Regards

s9(2)(a)

PUB-0233

Subject: Design of the interest limitation rule and additional bright- line rules

I am a long term property investor who has never sold any investment properties so I am in a business of providing for accommodation for people in need.

My opinions on the relevant rules are

> I believe these rules especially the interest limitation rule are designed to target specific business sector, which is unusual and unfair. If these must be implemented, I accept but would suggest the followings:
> **Chapter 6** – Development exemption.
> Properties undergone renovation and be made habitable from an uninhabitable condition shall be exempted from the rules
>
> **Chapter 7** – Properties have more living space added such as more bedrooms are added shall be exempted from the rules
>
> As these occasions add more supply of accommodation to the housing stock.

Chapter 8 – Exemption for new build for certain years should be with the properties, not with the ownership i.e no matter how many times the ownership have been changed.

Impact- the impact this proposed change has on me personally is huge.

I am currently on the 33% tax rate. The new rules will not only force me to pay tax on the mortgage interest, but will also push me up to 39% tax rate. I have to sell 2 of my properties to just keep my rental portfolio work.

Unfortunately, some of my tenants are s9(2)(a) they will have to leave even they treat these properties as their own homes.

I know an old couple who have retired. Luckily, they have some rental properties as supplement of their Super. Unluckily they will be on 39% tax rate soon even their main income is just the Super, which definitely will have huge impact on them financially.

I believe in these situations, the tax rate should be kept to the lower rate to relieve some burden of the heavily affected group of people.

Yours Sincerely,

s 9(2)(a)

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright line rules
Date: Friday, 9 July 2021 9:55:58 PM

Hello

I wish to make a submission in opposition to the planned changes to the taxes of rental property owners. To call this a loop hole is incorrect and simply an excuse to find a way to penalise rental property owners for investing in and providing rental properties to our communities. It is a massive undertaking to rent a property and no easy task in NZ under current legislation. Many many hours go in to overseeing a rental property and taking care of and managing relationships with tenants. To consider this exempt from tax deductions when commercial landlords will not be is just blatantly incorrect.
The treasury advised against this and it is only going to further increase rents as landlords, many of them, will have no choice but to pass on the losses.

Regards
s 9(2)(a)

From:	s 9(2)(a) [redacted]
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Friday, 9 July 2021 10:02:53 PM
Attachments:	Design of the interest limitation rule and additional bright-line rules.docx

---

s 9(2)(a) [redacted]

7/07/21

Dear Madam / Sir,

Regards Tax and interest.

Removing tax deductibility is effectively the imposition of a grossly unfair onerous and unreasonable tax on interest.

Tax on the interest component of rental properties amounts to a direct tax on tenants. Someone has to pay for it and that ultimately will be the end user.

It will be an onerous tax where there is often no profit and in more than 30 percent of cases a substantial loss.

There is no GST on rent from rental properties because previous governments recognised that would be a tax on tenants and they wanted to keep housing prices down. Likewise interest has always been deductible as a genuine business expense for providing rental properties.

Interest deduction is not a tax loophole or it would have been removed off Industrial and Commercial properties as well as other businesses.

Government is crippling more than a third of the people who supply 87% of rental houses in New Zealand.

According to IRD records 107,000 landlords already make a loss on their rental properties. They will now be paying tax on interest paid of on average round $3,000 to $6,000 per year when the new tax has kicked in fully. Thousands more who previously made a profit will be taxed on interest costs of providing a rental home as if interest was profit. They will therefore make a loss unless they increase rents.

That's $60 to $120 per week more to provide a rental property.

107,000 landlords were already subsidising their tenants by the amount they were losing per year and will now be losing substantially more due to a tax distortion.

Tens or hundreds of thousands of landlords will now make a loss, many will have to sell their properties. That may crash the market. That will adversely affect the economy and may cause an all out depression. Large numbers will sell, possibly at a loss and the banks will foreclose many and many will go broke.

Most property investors have not yet realised what it is going to cost them if they are even aware of the change. The panic selling will start when the tax kicks in at 50/75%.

Taxing interest on rental homes is a bad idea.

Interest is not a loophole it is a business expense in providing homes for people who can not afford or don’t want to own their own property.

Please have a rethink on whether it is advised to continue with this onerous and unfair tax. It should not happen.

Regards

s 9(2)(a)

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Submission regarding: Brightline extension and mortgage tax deductibility
Date:	Friday, 9 July 2021 10:51:35 PM

To whom it may concern,

I would like to put forward my submission as to what should be considered a new build.
I have recently subdivided land and built new, in fact the CCC for my new build was issued Nov 2020, yet the current proposal for a new build is 27th march 2021.
s9(2)(a) and since then thousands of new builds have gone up from private investors adding to the stock that the country so desperately needs.
I feel that new builds should be considered from at least 5 years ago rather than the announcement date of 27th march 2021.
In my case where the CCC issued in Nov 2020 does not make it any different to someone else who had their CCC issued after 27th March 2021 and have a significant advantage over myself and others for doing the exact same thing.
I had plans to continue adding more housing stock and provide affordable homes for first home buyers, but due to this new proposal will make things more difficult for not only me but thousands of others.
I feel that the definition of new builds should be reconsidered as this will prevent a lot of people moving forward.

Regards
s 9(2)(a)

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of the Interest Limitation Rule and Additional Brightline Rules
Date: Friday, 9 July 2021 11:17:09 PM

Response to Design of the Interest Limitation Rule and Additional Brightline Rules

Residential Property Ownership, Rental, Price affected by abolishing the Deduction of the Interest Expense.

Unlikely this breaking business protocol change will achieve reduced property prices or affordability for non savers.

Property prices are affected by supply and demand. Due to the current over building when the Developers can not sell they will declare bankruptcy and the market will be flooded. The developers will deduct expenses including loan interest. See history.

Punishing the backbone of residential housing providers breaks a code of business operation. It is alarming that one section of housing providers is being singled out, especially when this will not have the proferred affect.

Population / Accommodation ratio is out of cinque. Over 70s will release housing when moving to retirement villages.Covid returnees will filter off shore. Monitor immigration closely.

Reconsider tax deductions as these are a business expense. If Removing the Interest Tax Deduction is mooted then it must applly to all residential property.

s9(2)(a) [redacted]

From:	s 9(2)(a)
To:	Policy Webmaster
Cc:	s 9(2)(a)
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Saturday, 10 July 2021 6:30:08 AM

Hello

I own investment property as a way to hopefully generate future retirement income, and provide a 'leg-up' for my children as they get older. Basically I am trying to help myself, NOT rely on the Government or welfare for pensions or assistance as I age.

As with any venture there are costs, and across any industry interest is a recognised as a legitimate cost for business.

The proposal to limit the ability to claim interest against residential property would mean by default that it is now not recognised as a business. If that is the case then there should be no tax on income derived from rents. You can't have your cake and eat it too.

Our personal strategy is to only build new homes, so we are providing good quality housing for tenants, and increasing New Zealand's housing stock. Being penalised for doing so would mean we would need to increase rents or take the property off the rental market, further compounding the housing shortage for renters.

My suggestion is to leave tax deductibility in place for all new builds, with no limitations on the timeframe the interest can be deducted. This would directly encourage investors to build new, healthier, warmer and drier homes.

A nice side effect is that in time this would also help reduce the amount of respiratory illness experienced by many NZ kids and their families who reside in cold and damp conditions, saving untold millions on health costs.

I do consent to being contacted by an official regarding this submission or to provide further information.

Regards

s9(2)(a)
[redacted]

M s9(2)(a)
A s9(2)(a)
E s9(2)(a)
W https://www.nzwrapandnets.co.nz/

-

NZ WRAP AND NETS
SHRINK WRAP AND SAFETY NETTING SOLUTIONS

-

From: s 9(2)(a)
To: Policy Webmaster
Subject: Consultation - Design of the interest limitation rule and additional bright-line rules
Date: Saturday, 10 July 2021 11:55:43 AM
Attachments: Outlook-www.superh.png
Outlook-3nu4hwyq.png

Dear Sirs,

I fundamentally oppose the interest limitation rule for the following reasons

1. Loan interest is a legitimate business expense. Owning one or more accomodation units is a legitimate business.
2. Penalising accomodation services providers, when we have a severe housing shortage is short sighted and daft to say the least. These are the people you need to rely on to reduce the massive cost that you are incurring in the provision of temporary accomodation for homeless families.
3. This law copies what was enacted in the UK in 2017. In that market it has not reduced housing demand, nor property prices. It won't reduce prices, nor demand in Aotearoa either.
4. For Ma & Pa investors, this is their way of providing for their future retirement security, without having to rely on the State. Penalising them for having the foresight to plan ahead is extremely shortsighted and will have negative consequences on the public purse longer term.

I support the extension of the Brightline test but I think it should include all properties except

1. new build properties that meet the minimum standards of Homestar 8, Passive House or the Superhome Movement's Healthy Home Design Guide "Base (Healthy Home)" standard.
2. Existing residential properties that have been renovated to show targeted energy savings of at least 50% or a modelled energy demand of 75kWh/sqm*yr.

The reason for this is that the government have set carbon reduction targets to be achieved by 2050. If we don't start significantly improving our new and existing housing now, we will miss those targets by Kiwibuild margins.

Further, proof of property improvement to meet the above energy reduction standards should be required on the sale of every property from 2030. Reducing to 45kWh/sqm*yr by 2040 and further reduced to best international practice of 15kWh/sqm*yr by 2050.

If the interest limitation rule is enacted, then it should exclude

1. new builds and renovations that show targeted energy savings of at least 50% or a modelled energy demand of 75kWh/sqm*yr.
2. existing property that has a proven history as rental accomodation for at least 5 years prior to the date of the rule becoming law, or be exempted following 5 years of continuous rental income from a single owner. This would allow new build to rent, or buy to rent properties to continue to claim their legitimate business expense when providing long term permanant accommodation.

Kia pai to ra (Have a nice day!)

s9(2)(a)
[redacted]

w www.healthyhome.kiwi

From: s 9(2)(a)
To: Policy Webmaster; s 9(2)(a)
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Saturday, 10 July 2021 12:41:36 PM

Dear Sir/Madam,

1. My main objection to the proposed tax changes in relation to Residential Rental Properties is
   the application of the proposed changes on 1 October, 2021.
   Instead, the application should coincide with the finish of the current "Financial Year" and the
   start of the next "Financial Year" ie. 1 April 2022.

   (My reason for the request is that the proposals, as shambolic and ill-conceived as they are,
   will take much longer to sort out and pass than the proposed date of 1 October 2021 which is
   in the middle of the current "financial Year". This will also cause additional accounting cost
   for those directly affected by those proposals because of possible overlapping rules and laws.)

2. My other objection to the changes is that the effects not only affect Residential Property Providers
   but also negatively the Tenants.

   (My reasons are; 1. That the extra tax payments will have to be passed on to compensate for the loss
   of earnings related to the affected properties resulting in increased rent. Especially with the forecasts
   of increases in the Official Cash Rates resulting in higher interest charges by the Banks.
   2. There will be Land Lords who will change their properties from residential rental
   use to short term accommodation rental to provide the tourist market and casual visitors resulting
   in contraction of long-term rental accommodation. Result is increased demand for emergency housing
   for the "Lucky ones" and sleeping in cars or worse places for the ones out of "Luck".
   3. Many "Part-time " Land Lords" will decide that the hassle is not worth it and will
   sell their one or two properties with consequent results as mentioned under 2.

s 9(2)(a)

[redacted]

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Saturday, 10 July 2021 12:56:43 PM

Commissioner of Inland Revenue,
We wish to make a submission in regards to the design of the interest limitation rule.

BACKGROUND
There are residential properties in tourist locations such as Queenstown that have a council issued designated 365 day visitor accommodation licence.

These licenses exist to enable the provision of sufficient properties to meet the demands of the tourism sector during normal operating cycles.

The primary purpose of this license and therefore these properties is the provision of accommodation to tourists (domestic and international).

RECOMMENDATION
Residential properties that have a designated 365 day visitor accommodation license are not subject to the interest limitation rules.

The effective management of the 365 day visitor accommodation licenses by local government will ensure that this exemption to the interest limitation rules is contained to its intended properties.

Regards,
s 9(2)(a)

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Saturday, 10 July 2021 1:01:52 PM

I totally oppose the interest limitation rule.
It will not get the desired or come of less houses being rented and more owned.
Private landlords provide over a third of all rentals and these increased costs will be passed onto the tenants.
They will have increased rent at a time when many are trying to save to get a deposit for their own home.
Add to that the lack of housing supply and it will just make it harder for first home buyers.

It is an envy tax by a socialist govt who believes no one has the right to try and get ahead.

s 9(2)(a)

From: [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Saturday, 10 July 2021 1:32:37 PM

Hi Team

I would like to make a submission in relation to the *Design of the interest limitation rule and additional bright-line rules.*

My Partner and I have purchased [redacted] over the past 2 years 1 April 2019 - 16 March 2021.

We purchased these directly from the [redacted] of these properties were in progress through COVID19 we were very concerned at the time whether or not they would be completed and there was a real risk at this time as to what was going to happen in the future. At that time economists predicted a downturn and drop in house prices. This was a stressful time that we needed to live through.

We made a decision to purchase new builds as we wanted to add to the housing stock and ensure that tenants were going to be homed in a healthy home - up to all the standards including double glazing, insulation, heating - a warm dry cosy home.

The houses are all tenanted with prospect of long term tenancy. One of the houses [redacted] There is a young mother and two children living in this home and enjoying her space to bring up her children in a healthy home close to schools and community facilities.

With the new proposed laws it is likely that we would no longer be able to purchase any more new houses to add to the housing stock and thus supply to the rental market. The reason being is that the tax that we would have to pay on the 4 new builds which are deemed 'existing homes' would reduce our ability to lend any more funds.

We purchased these homes in good faith on the current rules that interest would be deductible. If this is to change it is likely that we would need to sell at least 2 of the 'existing' houses to reduce our tax bill. This would mean that the people who are renting will then have to leave to find another rental. This will create an environment of less rentals in the market leading to competition for rentals and thus increase in rents and those less desirable not getting a rental. There would be more homeless people and the Government will need to pay additional costs to house the homeless in motels.

We urge you to reconsider that interest be deductible on new builds purchased over the past 5 years. We feel that we were doing the right thing under the current existing rules. This would allow us to continue to keep our current rentals as well as purchase [redacted] thus adding to housing stock and housing those in New Zealand who need to rent.

Kind Regards
[redacted]

Sent from my iPad

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Saturday, 10 July 2021 2:10:36 PM

To whom it may concern

The impact of the proposed policy changes.

- Will force our hand and make us increase rents. In the past our properties have been underlet to help our tenants. We can no longer afford to do this.
- Because of the lack of cashflow we will have to top up the property costs from our personal income which will then limit our investing in the future.
- The lack of cashflow will be an issue as less people will be able to afford to invest and therefore will not be able to add to the New Zealand housing stock. (Growing the New Zealand housing stock is this governments aim!)

Our suggestion to make this policy fair is to redefine the definition of a new build. We believe that a fairer definition would be that properties that have been issued with a Code of Compliance within the last 5 years should be defined as a new build.

Many investors, including ourselves have invested in new build properties and therefore added stock to the New Zealand housing supply. (Again, this is and was the government's aim.)These investors are now being penalized by this new policy as their recently built investments do not fall under the new build definition.
If the new build definition is extended, then investors who have invested in new builds in the past will have the cashflow to keep reinvesting and therefore add to the New Zealand housing supply.

We do consent to being consented by an official regarding this submission or to provide further information.

Yours sincerely
s 9(2)(a)

From:	[redacted]
To:	Policy Webmaster
Subject:	Submission on the "Design of the interest limitation rule and additional bright-line rules" Government discussion document, dated June 2021.
Date:	Saturday, 10 July 2021 2:12:28 PM
Attachments:	image002.png image003.png image004.png

Good Afternoon –

In addition to our own home, my partner and I have purchased [redacted] properties in the past 5 years (one of them 10 months ago). Both properties were [redacted], so were new builds at settlement.

We have deliberately purchased new properties, as we believe these will provide a higher standard of living for our tenants.

While both properties have borrowings against them, we have also displayed a commitment to paying down this debt, rather than extending ourselves to purchase still further properties.

These properties will not be considered 'new builds' under the new rules, despite them having the many of the same characteristics as a 'new build'.

Given the similarity of these properties to a 'new build', it seems entirely unfair that the interest deductibility is treated differently. We are punished simply because of the timing of our purchases when compared to someone purchasing a new build investment property today. To use a sporting analogy, it's a rather unlevel playing field.

We would request that the definition of new builds is extended retrospectively for a period of 5 years minimum.

In response to the discussion paper, we support the following.

The interest treatment on refinancing should be carried across from the original loan to the new loan (see section 4.13 and 4.14).

The new build exemption should be applied to early owners and subsequent purchasers.

The new build exemption should apply to early owner in perpetuity and for a period of 20 years for subsequent purchasers. This will help protect the resale value of the property within that period.

Apportionment rules should be applied to determine the exemption from the interest limitation rule.

Rollover relief should be available for the interest limitation rules for the 4 year phase out period.

Rollover relief should be available where property is transferred between a family trust and its owners and the brightline test should not be applied or reset.

Rollover relief should be available where property is transferred between an LTC and its owners and the brightline test should not be applied or reset.

s 9(2)(a)

[redacted]

PUB-0246

From:	s 9(2)(a)
To:	Policy Webmaster
Cc:	s9(2)(a)
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Saturday, 10 July 2021 3:47:36 PM

To whom it may concern:

Thank you for reading my submission.

My husband and I have been property investors since 1997. We started as "Mum and Dad" property investors with 1 rental property in order to provide financially for ourselves and our family, and have slowly built up the portfolio over the years. Our aim has always been to provide quality homes to our tenants, and to respond promptly to their requests. Our tenants generally choose to stay in our properties for an extended period, for instance many of our current tenants have been with us 7 to 10 years.

I am not at all happy about the introduction of the interest limitation rule as it will make our current portfolio untenable, and that will mean we will have to sell properties which families have made their homes for the last 7 to 10 years. This is very unsettling for the tenants.

Contrary to public perception we are not making big profits on our rentals, and are therefore unable to absorb the extra costs.

We have already given notice to one family because we have decided to renovate their house in order to prepare it for sale. Their home is a small 2-bedroom house which is on a title which has 2 houses. Because there is such a shortage of rental property available in s 9(2)(a) this young family of 4 has applied for many 2 or 3 bedroom houses since we gave them notice, but has been turned down repeatedly in spite of their good track record over the last 8 years in our rental home, and both the adults have jobs. They have been forced to secure a smaller rental home. We feel very sorry for them squashed into such a small space. The family in the other house on the title have not yet been given notice because it will not require renovation before being sold, but I do not believe they will want to stay while the house is on the market.

This situation will be causing hardship for 2 families of tenants who will have to move. We will need to sell more than one property to survive under the interest limitation rule, so more tenants will also lose their homes over the next few years. This is not something we want to do, but we have no choice.

The government has stated that the intention of the removal of interest deductibility is to make it easier for first home buyers to own their own homes. However this type of property with 2 or more homes on 1 title is not the kind of property that a first home buyer would buy, so the difficulties caused to these tenants will do nothing to achieve the government's stated goal.

For the above reason I would like you to consider **exempting properties with 2 or more dwellings** from the interest limitation rule.

Another situation where properties would not be likely to be purchased by first home buyers are small apartments. These small apartments would be unlikely to qualify for an 80% loan from the banks, and therefore would be un-obtainable for first home buyers.

Therefore I ask you to **exempt small apartments** from the interest limitation rules.

Another problem I see with the interest limitation rule is that there is no clarification that if a dwelling is re-financed the “new” loan replacing the old one should be treated as a continuation of the old loan, allowing the phasing-out of interest deductibility over 4 years to continue unchanged for dwellings purchased before 27 March 2021. It is a common situation for loans to need to be re-financed, sometimes within the same bank or sometimes with another bank. There are sound business rules for this e.g. when a loan reaches the end of its original term without having been paid off, or in order to obtain better terms for the loan.

So I would like to see it **clearly stated that where a property has been purchased prior to 27th March 2021 and the loan(s) are refinanced, the loan(s) will be treated as a continuation of the original loan up to the value of the original loan(s).**

When tax is paid on sale of a property. It doesn’t seem right for an investor to be taxed both ways – so I think **if tax is charged when property is sold, the interest paid should be allowed as a deduction**.

In summary I am requesting:

exemptions for properties with 2 or more dwellings

exemptions for small apartments (this would also cover student accommodation)

clarification that re-financing loans will not be a disadvantage for properties purchased prior to 27th March 2021

if tax is charged on sale of a property, that interest be allowed as a deduction.

Thanks for taking the time to read my submission.

If you have any queries, please feel free to email me.

Yours sincerely

s 9(2)(a)

From: s 9(2)(a)
To: Policy Webmaster
Cc: s 9(2)(a)
Subject: DU VAL SUBMISSION: "Design of the interest limitation rule and additional bright-line rules"
Date: Saturday, 10 July 2021 3:55:42 PM
Attachments: 2021 07 10 Du Val BTR Submission - Design of the interest limitation rule.docx
Importance: High

Dear Policy team,

Please find attached our submission on the Design of the interest limitation rule and additional bright-line rules.

We would like to be kept informed of developments please.

Thanks,

s 9(2)(a)

DU VAL Build-to-Rent LIMITED
Head Office: 8 Lakewood Court, Manukau City Centre, Auckland 2104
s 9(2)(a)

DUVAL | LinkedIn | Youtube | Facebook | Instagram

DUVAL™

Submission on the Government discussion document on the design of the interest limitation rule and additional bright-line rules

Introduction

Du Val Group ("Du Val') welcomes the opportunity to submit on the Government's discussion document regarding the design of interest limitation rule and additional bright-line rules.

s 9(2)(b)(ii) [redacted]

Overview

Du Val ***does not support*** the proposed change to the interest deductibility rules as set out in the Government discussion document, "Design of interest limitation rule and additional bright-line rules".

Du Val's position is that there is little evidence that the tax proposals will have any significant impact on the ability of the Government to achieve its housing affordability and supply objectives and, in any event, the tax system is not an appropriate lever to use to solve these issues.

In Du Val's view, the proposed change to limit interest deductibility is likely to reduce supply and put pressure on prices and on landlords to increase rents. Further, it will remove potential investors from the market who would otherwise favour this form of investment.

This against a background of the private sector, with very little assistance from Government and its sovereign wealth funds, working hard to overcome current challenges and establishing a new viable asset class in New Zealand that will make a tangible contribution to new supply to a housing accommodation sector in crisis.

However, if the Government does choose to progress with these tax changes, Du Val makes the following submissions:

Principal submission – specific carve-out for the "Build to rent" properties

Du Val has recently established a Build-to-Rent ("BTR") fund involving a s 9(2)(a) [redacted] & senior debt raise to fund the initial acquisition of two established BTR communities at s9(2)(a) [redacted] s 9(2)(a) [redacted] Du Val's intention is that, over time, the Fund

P +64 9 263 7205 **E** info@duvalgroup.co.nz **W** www.duvalgroup.co.nz **Address** NZ PO BOX 97397, Manukau City 2241, New Zealand

will seek to raise further funds to acquire further BTR projects that will provide the Fund with long term ownership of a portfolio of institutional-grade BTR assets.

Given the Government's focus on encouraging new housing supply, Du Val ***strongly recommends*** a specific exclusion from the proposed interest limitation rules for appropriately defined BTR properties.

BTR properties are large real estate developments that are purpose built for occupants seeking high-quality long-term rental accommodation, having regard to the varying housing needs of different New Zealanders. This is consistent with the objective to ensure that every New Zealander has a safe, warm, dry, and affordable home to call their own – whether they are renters or owners.

A key purpose of BTR is to address housing affordability and lack of suitable supply (either for ownership or rental), particularly in high density cities. Features of BTR properties can include the following:

- Security of tenure for tenants
- Held in single ownership structure
- Affordable rental accommodation for tenants
- Dedicated facilities management to readily respond to tenant requirements, ranging from maintenance to provision of services
- Community living is created via shared facilities, amenity and customer services
- Communal amenities are often part of the offering (e.g., communal kitchen, laundry facilities, gardens etc)
- Close proximity to major transport hubs, schools, childcare, retail and entertainment.

New Zealand's BTR market is new but has potential for rapid scalability. We believe it will form an important part of the toolkit to increase overall housing supply and choice of accommodation.

Ensuring that BTR properties are excluded from the proposed interest limitation rules would give certainty to developers, potential investors and future owners regarding the financial metrics of their investment.

For clarity, Du Val supports the Property Council of New Zealand's definition of BTR as:

— an asset specifically designed, constructed or adapted for long-term residential tenancies;
— accommodation comprised of a portfolio of minimum 50 self-contained dwellings and including some form of shared amenity and or service: and
— dwellings that are let separately but held in unified ownership and dedicated to residential tenancies for a minimum of eight years, operated with professional and qualified management and with oversight under a single entity.

Du Val is happy with work with Inland Revenue and other Government agencies on any definitional issues that may arise.

BTR is an integral part of the housing continuum which reflects the different needs and requirements of New Zealanders. BTR does not typically compete in the new build market with first-time home buyers, and it does not compete with the secondary housing market for first-time home buyers. It is simply an alternative form of long-term housing, to meet different New Zealanders' needs (as not every New Zealander may wish or are able to own their home).

In Du Val's view, BTR does not fit neatly with the traditional residential asset class (which these tax changes are aimed at). BTR is more akin to a commercial asset. Developments are often built and operated at commercial scale due to the nature of BTR, which is high quality long-term residential accommodation.

If BTR is not recognised as a separate asset class that is specifically excluded from the proposed interest deductibility changes, there is a high risk that BTR developments will not be financially attractive or competitive in terms of other investments; and may also not be economically feasible. This will constrain both housing choice and overall supply. Therefore, Du Val's strongly believes that BTR, as appropriately defined, should be specifically excluded from the proposed interest limitation rules.

Supplementary submissions

Du Val also makes the following supplementary submissions, particularly if our principal submission is not supported.

Issue 1: Accommodation that it not directly substitutable for owner occupier housing should be excluded

As previously outlined, Du Val has recently established a BTR specific fund. Although the properties held by this fund are not directly substitutable for owner occupier housing, based on the proposals in the discussion document, Du Val is concerned that interest deductions would be denied in respect of these properties at a fund or investor level.

The properties in question are units that have been built so that there are s 9(2)(a) [redacted] bedrooms in each building, with shared kitchen, dining, laundry and parking facilities. Although boarding houses are intended to be excluded from the types of residential property that would be subject to the proposed interest deductibility rules, in Du Val's view there is a risk that these particular types of BTR properties do not strictly meet the definition of a boarding house due to the nature of the leases and terms entered into with tenants and also the fact that the rooms contain ensuite facilities.

It is clear from the perspective of the "commercial dwelling" definition that the tenants of the buildings do not have quiet enjoyment of the premises as, although the bedrooms have an ensuite and can be locked, the occupants do not have quiet enjoyment of the facilities as well, due to the shared nature of the facilities. There is also a significant element of on-site control and management of the building which lessens the ability for tenants to have quiet enjoyment.

The buildings could not be retrofitted into houses suitable for residential living as there is not sufficient space in each bedroom to install the necessary amenities. Therefore, in Du Val's view the properties are not directly substitutable for property available to owner-occupiers.

Du Val submits that the definition of "boarding house" will, in some circumstances be too narrow to capture properties that are clearly not substitutable for owner/occupier housing. Du Val recommends that, in addition, properties that satisfy the definition of "commercial dwelling" in the GST Act should be excluded from the proposed interest limitation rules. This is on the basis that paragraph (a)(v) of the GST Act definition ensures that premises that are commercial in nature are not caught by the proposed interest limitation rules.

Issue 2: application of the new build exemption

Du Val agrees that an exemption from the proposed interest limitation rules should be made for new builds in order to ensure new housing supply is not constrained (particularly if a specific carve-out for BTR developments is not supported).

Du Val's believes it is important that the period of the new build exemption is of sufficient length so as not to dis-incentivise the development of new housing stock. It is also important that, where an initial owner is developing new housing supply, there is a secondary market available on the eventual sale of the properties and the tax system does not create uncertainty around valuation on sale. Given this, Du Val supports the exemption being available to both the initial owner and any subsequent purchasers of properties that qualify as a new build.

Du Val submits that the new build exemption:

- should be provided in perpetuity to the early owner; and
- should also be available to all subsequent purchasers for a fixed total 35-year period from the date the property first qualifies as a new build.

This would ensure that there is certainty around the tax treatment for new projects to proceed, as the duration of the new build exemption will be able to be modelled for differing ownership scenarios.

Summary

In summary:

Du Val ***does not support*** the proposed changes to the interest deductibility rules as set out in the Government discussion document, as there is little evidence that the tax proposals will have any significant impact on the ability of the Government to achieve its housing affordability and supply objectives and, in any event, the tax system is not an appropriate lever to use to solve these issues.

However, if the Government does choose to progress these changes, Du Val makes the following submissions:

Principal submission

- BTR, as appropriately defined, should be specifically excluded from the proposed interest limitation rules.

Additional submissions*, particularly if our principal submission is not supported*

- Properties that satisfy the definition of "commercial dwelling" in the GST Act should be excluded from the proposed interest limitation rules.
- The new build exemption should be available in perpetuity to the early owner and to any subsequent purchasers for a fixed total 35-year period.

For any queries regarding this submission, please contact s 9(2)(a) [redacted] s 9(2)(a) [redacted] **- Submission**

My submission relates to the - Transitional Rules around the Early Owner definition of “New Build”, the 12-month timing of the “Code Compliance Certificate” (CCC) issue date, the interest limitation rules and extended Brightline provisions.

ISSUE: The proposed definition relating to the 12-month CCC criteria around the Early Owner “New Build” definition from 27 March 2021 **does not** recognise all the new build scenarios. Examples listed below. This proposed definition goes against the Government’s intent of the legislation, in providing quality new builds to all New Zealanders, to increase the accommodation supply.

RECOMMENDATION:

- The Early Owner CCC timing definition be extended out to 5 years like the existing 5-year Bright Line rules relevant at that time when the CCC’s were issued from the 27 March 2021 in order to capture all the quality “New Builds” and Healthy Homes built during that time.
- All “New Build” properties issued with CCC’s 5 years prior to the 27 March 2021 should be eligible to claim their interest costs for providing quality new builds and be eligible for the amended Bright-Line rules for “New Builds”.
- All these properties are “New Builds” and they add to the housing supply and the Government’s intent and purpose of this proposed legislation.

Background: *I have two examples listed below of “New Builds” that have not been recognised or captured in the Early Owner New Build definition timeframe of 12 months CCC issued from the 27 March 2021, where they fall outside the 12-month transitional time frame, even though they are “New Builds”.*

1st New Build Example

My husband and I purchased a “New Build” s 9(2)(a) [redacted] On settlement we discovered the CCC had been issued on the 22 February 2019, (25 months) prior to the 27 March 2021 proposed “Early Owner New Build” implementation date. This property was;

- Fully insulated,
- Double glazed,
- Heat pump,
- Latest Building Codes,
- Met the LVR for New Builds with the banks for lending,

Due to an oversupply of New Builds s 9(2)(a) [redacted] and the start of the COVID 19 uncertainties early last year the “New Build” property hadn’t sold. In fact, the “New Build” property had sat empty for 18 months until we purchased and settled the property straight off the Developer as a “New Build” last year in October 2020.

This property falls outside the proposed definition of “Early Owner New Build” time frame, even though it was a new build, had never been lived in and still met all the current Healthy Homes standards and we are the first genuine owner to rent it out.

2nd New Build Example –

My husband and I settled another "New Build Property" in s 9(2)(a) [redacted] townhouse purchased straight off the plan, outside deck area, easy walking distance to the city. All the same features as property listed above and an extra heat pump.

This "New Build" was built on a site that originally had an unhabitable, derelict home which was demolished to allow s 9(2)(a) [redacted] designed town houses. Increasing the housing supply of brand new, quality, healthy homes.

The CCC was issued on the **6 December 2018,** outside the 12-month Early Owner lead-in time from the 27 March 2021. (27 months after the transition 12-month time frame from the 27 March 2021). This home is a quality Healthy Home and a New Build.

Issue Summary

Neither of these 2 examples have been captured or recognised in the proposed "Early Owner New Build Definition" even though they both add to increasing the long-term residential accommodation and housing supply of quality "New Builds" within New Zealand.

Conclusion

As a genuine investor we acquired these new builds as long-term investment properties to add to the existing housing supply with quality "New Builds".

- The 12-month Early Owner New Build transition time frame goes against the intent of increasing the housing supply of quality "New Builds",
- These properties provide long term residential accommodation and
- Provides access to affordable, warm, dry and safe homes (whether rented or owned) for every New Zealander,
- The timing of this proposed legislation and the insufficient lead in transition period means we are unable to claim interest costs on our quality "New Build" properties that meet all the current Healthy Homes Standards and have been built up to the latest Building Codes.
- This will impact on our ability to continue to provide long term quality "New Build" residential properties which will be detrimental to the housing supply and
- This creates a significant barrier to us with the proposed interest limitation rules.

These examples highlight the proposed legislation in haste hasn't recognised all scenarios for "Early Owners of New Builds" for the interest limitation rules and the additional Bright Line rules with CCC 12-month timeframe from the **27 March 2021**.

Compliance Evidence

New Build properties can be verified with the CCC issue date and the LINZ Titles to verify settlement dates and the type of new build. A full Sale and Purchase agreement could also be supplied as evidence of a quality new build home. This evidence assists with the;

- Simplicity of the tax system and compliance costs for taxpayers.

Discuss Further

I am available to be contacted to discuss further if necessary and I would like my name withheld from disclosure/publication under the Official Information Act.

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Saturday, 10 July 2021 4:54:02 PM

To whom it may concern

I would like to make a submission in relation to the *Design of the interest limitation rule and additional bright-line rules.*

We have purchased s 9(2)(a) [redacted] over the past 2 years 1 April 2019 - 16 March 2021.

Purchased directly from the s 9(2)(a) [redacted] of these properties were in progress through COVID19 we were concerned at the time whether or not they would be completed and there was a risk at this time as to what was going to happen in the future. Economists predicted a downturn and drop in house prices.

We purchased new builds as we wanted to add to the housing stock and ensure that tenants were going to be homed in a healthy home - up to all the standards including double glazing, insulation, heating - a warm dry cosy home.

The houses are all tenanted with prospect of long term tenancy. One of the houses which is based in s 9(2)(a) [redacted] There is a young mother and two children living in this home and enjoying her space to bring up her children in a healthy home close to schools and community facilities.

With the new proposed laws it is likely that we would no longer be able to purchase any more new houses to add to the housing stock and thus supply to the rental market. The reason being is that the tax that we would have to pay on the s 9(2)(a) [redacted] which are deemed ‘existing homes’ would reduce our ability to lend any more funds.

We purchased these homes in good faith on the current rules that interest would be deductible. If this is to change it is likely that we would need to sell at least 2 of the ‘existing’ houses to reduce our tax bill. This would mean that the people who are renting will then have to leave to find another rental. This will create an environment of less rentals in the market leading to competition for rentals and thus increase in rents and those less desirable not getting a rental. There would be more homeless people and the Government will need to pay additional costs to house the homeless in motels.

We urge you to reconsider that interest be deductible on new builds purchased over the past 5 years. We feel that we were doing the right thing under the current existing rules. This would allow us to continue to keep our current rentals as well as purchase more new builds off the plan thus adding to housing stock and housing those in New Zealand who need to rent.

Regards
s 9(2)(a) [redacted]

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of interest limitation rule (and additional bright-line rules)
Date: Saturday, 10 July 2021 5:30:32 PM

Kia ora,

I recently bought my first investment property, with the intention of preparing for retirement. s 9(2)(a) [redacted]

In June 2020 I bought a two-bedroom townhouse in s 9(2)(a) [redacted] and was glad to be contributing to housing supply. As a new landlord, I'm pleased to be offering my tenants a warm, dry, comfortable home.

The house settled in April 2021. However Code Compliance was issued on 17 March. If a hard line is drawn at 27 March and this house is not considered a new build, and therefore subject to (phased out) non-deductibility of interest, buying another (new) investment property may be beyond my means as a single earner. This may well mean delaying retirement.

The new rule should not affect people who committed to financing a new build, which the government wants, as recently as last year.

I am happy to be contacted by an official regarding this submission, or to provide further information.

Ngā mihi,

s 9(2)(a) [redacted]

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Saturday, 10 July 2021 9:22:40 PM

Dear Sir/Madam

The proposed interest deductibility rules are an outrage for the following reasons:

1. The relationship between citizen and state and authority to tax/implement such significant and fundamental change to the tax system requires far greater consultation, research and analysis than the Government has done. Grant and Jacinda ought to be embarrassed about the nonsensical proposals, which will do nothing to increase housing supply.

2. Taxing citizens is a constitutional issue, not something where fundamental changes ought to be introduced in the way the Government announced. "Retrospective consultation" (as this short consultation period attempts to be) is essentially a butt-covering attempt and should be called out for what it is.

3. Grant Robertson and Jacinda essentially admitted on national television (Q&A and similar shows) that Cabinet was the only bunch of people who thought the interest deductibility measures were a good idea.

4. At every level, the proposed changes are bad policy and changes which will hurt the very people Jacinda/Grant claim they want to "protect".

5. The interest deductibility rules have been around in NZ for over 100 years, are recognised GAAP and on statute books internationally. They are not a "loophole". It is disgraceful and offensive to the intelligence of the general population to attempt to suggest this. The policy logic propounded by Grant/Jacinda etc is also grossly flawed. If someone buys a computer for work, it's clearly deductible. If the same person buys a computer for personal use, it's not. The fact a person can deduct their laptop used for business is not a loophole. It is simply something needed to run a business. Ditto re interest.

6. Property speculators and investors are different. To equate them in the way the Government as done is dishonest.

7. Jacinda campaigned on "no new taxes", including "no introduction of a CGT". Grant campaigned on no extension of brightline. Jacinda and Grant have both lied. Removal of interest deductibility is a new tax. No doubt the Government will fritter away the many millions it generates too There can be no argument that it doesn't increase the Govt's tax take. Likewise, "I was too definitive" does not avoid the fact the Government has done the opposite of what it said/went to the electorate on. As the Government knows, many NZers voted for labour (strategically) to keep the Greens/Winston out. That won't happen again as a result of these announcements/proposals at issue. What we have all learned is that Jacinda will say whatever is needed for a vote and then claim she doesn't understand or knows best at a later date to do something different to her campaign promise. The brightline extension will simply see people hold properties for longer. It won't increase supply. It also punishes aspiring first home buyers hoping to be able to purchase in a location different to where they live, build up some equity and then sell investment property and buy a home where they do live. Nonsensical do so now, as will attract one of the most punishing CGT rates in the developed world. Even the tax working group only recommended 10-20% CGT, not 39%/whatever someone's marginal tax rate is!

8. Jacinda claimed she was going to lead the "most transparent Government" yet. Funny though how she hasn't released any data showing that the proposals make good tax policy or accounting sense. NZ used to be world-leading in its tax policy. This Government's attitude (or perhaps more aptly, arrogance) is shameful on the world stage. Jacinda/Grant do not know better than IRD and Treasury and/or the experienced business property community. Remember how until not that long ago, Jacinda didn't even know what GDP was?!

9. A longstanding and basic principle of NZ's tax system (and many others worldwide) is that citizens pay tax on profit, not income/revenue/sales. If the Government genuinely believes this rubbish about loopholes and the rightness of taxing revenue rather than profit, please have Treasury redo all of the Government's accounts immediately, including for all State Owned Enterprises. Please also ensure that all Politicians pay tax based on their salaries and aren't allowed any "loophole" Parliament/office/travel-related deductions below the salary line to affect their tax liability.

10. Politicians can claim all they like that landlords won't increase rents as a consequence. Well, they're deluded if they think that's the case. Sure, rents may not go up to match the increase all in one go, but instead of steady CPI increases, there will just be bigger jumps each year than otherwise the case until the numbers eventually even out over the next 4-6 years. So, those who can't afford to buy/don't have a deposit will lose more of their cash than otherwise the case to higher rent. (All the Healthy Homes changes - whilst not a bad idea in principle, but again implemented all wrong and Tenancy Act changes mean rents will continue to rise for quite substantial periods.) Jacinda and Grant should be disavowed of the idea that rent controls will fix that problem too. It is also telling that Kainga Ora (as the country's biggest landlords) is one of the most appalling landlords and has a substantial number of its "customers" living in squalor/houses that don't come close to meeting Healthy Homes standards.

11. Jacinda/Grant should start preparing now to find money to find greater emergency housing. The motels are packed and costing taxpayers a fortune. But of course, Government doesn't care, as it's not its hard-earned money its spending ...

12. The proposals simply condemn secondhand houses to the realm of first-home buyers or poorer individuals. The reason being that investors will simply shift to new builds or bowling an existing/secondhand house and putting a new one in its place. The price of new builds will increase as a simple demand consequence. Investors also have more money to spend than first home buyers so the latter will always be outbid in favour of interest deductibility be available.

13. Unless extremely rich, first home buyers do not have the money to repair secondhand houses or bring them up to Healthy Homes standards etc. Under the proposed changes, all first home buyers will be able to do is (assuming they can save a deposit) buy a secondhand house and then eventually sell if lucky to an ever-decreasing market of first home buyers. Those who wish to buy a family home in the Akld Double Grammar Zone and similar are not in the same market as first-home buyers. The DGZ market etc will not be affected in the same way as the grossly shrunk first-home buyer house market, which will remain (for want of a better term), forever crappy. Does the Govt really want first home buyers to "downgrade" from their rental just to be able to purchase a home? Somehow, I doubt it. But quite clearly, Government hasn't thought through its announcement much.

14. It is also telling that such a significant percentage of owner-occupied homes do not

have a heat pump, yet many more rentals do. If you ask a lot of "mum and dad" rental property owners, they'd be the first to tell you that there own home doesn't have a heat pump/fixed heating etc, but their tenants do! Improving/refurbishing a secondhand house so that it can be lived in for another 30-50 years means that someone/a family has a home just as much as bowling the existing house and building something new. Yet the former is bound to create far less environmental waste than the latter. Or is climate change stuff only re relevant cows/farmers or when it suits the Government??

15. The proposals are simply "click bait" to make the population think it is doing something given it created much of the recent mess/price increases by spending millions of stupid stuff that doesn't grow the country long-term under the guise of Covid-19 and borrowing in the way it did for its "Covid-19 fund". (Grant - note that this "fund" is all borrowed, it's not money in the bank and will eventually need to be paid back.)

16. One day the Government will realise it actually needs private landlords to be able to house all those who wish to rent. As the overflowing motels and crappy Kainga Ora housing stock shows, it cannot house everyone who needs/wants a home through Kainga Ora. By the time it realises it needs private landlords, it will have decimated the industry. Commercial property and (to a smaller extent) new builds will simply become investors' (not speculators') product of choice.

17. If anyone in Cabinet had any appreciation for the real world outside of Parliament, the Government would have realised that supply, not demand, is the biggest issue. Trying to use mechanisms like those announced to divert attention from the spectacular failure that was Kiwibuild is disingenuous. Even Phil Twyford seemed to appreciate supply is the biggest issue long-term.

18. NZ cannot stay a hermit nation forever due to Covid-19 and the Government's attempt to artificially increase wages without commensurate/greater increases in productivity are doomed to fail (and will simply increase inflation). Once more people come to/back to NZ, supply issues will become more pressing. Market activity since March 2021 is already showing that supply (and the cost of construction/building) is the key driver of house prices.

19. Back in the 1970-1990s, development contributions etc weren't individualised. The "great robbery" of the 2000s onwards in particular was really of infrastructure investment. If the Government actually realised that all it has to do is service the debt on infrastructure and build things that are actually useful/increase productivity (think East/West already consented but for unexplainable reasons, scrapped motorway connection or Mill Road connection vs vanity/phallic projects like Harbour Bridge walk/cycleway to connect one $2-3m suburb to another $2-3m suburb), NZ would be a much better (and richer) country. We have/had a once in a lifetime opportunity to really invest in infrastructure in a way that will generate far better returns for NZ longterm, but current Govt seems to be blowing that (largely because it's not willing to listen to good advice or doesn't have anyone to get good advice from). It's a tragedy. Government needs to listen to and work with the private sector more. They're not the enemy and actually have useful ideas and insights, not to mention a whole lot of really talented people that would simply die of boredom/frustration in the public sector.

20. NZ needs a plan for its future - e.g. what sort of country do we want to be (10m people? 20m people)? What services and infrastructure does that require? Where do we want that growth? How do we shape/fund that? How/where do we build enough schools/hospitals/houses etc. If the Government focused on those things rather than stupid policy that makes no sense like the interest deductibility rules etc, we'd have a much better

country.

21. There is no evidence that the announced/proposed rules are good policy or will achieve any of the Government's objectives in terms of increasing housing supply. In fact, the reverse is likely. If Jacinda/Grant want to keep hitting middle New Zealand over the head with a sledge hammer, they should realise that there are consequences of doing so - short-term and long. The richest NZers don't pay much/any tax and these policies/announcements won't fix that.

22. If Government genuinely wants to make the tax system fairer, best thing it could do is increase GST to say 20 - 25%, reduce income tax to a flat 15-20% (or similar) and put tax credits in place to deal with GST's regressive effects. For those truly at the bottom, tax credits may also include a refund rather than just loss to carry forward. That way, tax generally becomes far less avoidable by those with the means to do so and Government balance sheets/tax take no so reliant on individuals and burden shared more equitably.

23. For all the above reasons (and no doubt many others), the tax rules should be left alone/as they were before any of Grant's and Jacinda's March announcements.

PUB-0252

From: s 9(2) [redacted]
To: Policy Webmaster
Subject: Interest deductibility consultation launched
Date: Saturday, 10 July 2021 9:38:10 PM

I am just wanting to demonstrate my disappointment at yet another form of tax your government is trying to weasel to its hard working citizens. I do not support the continued disregard for how this will truely impact kiwi families and young people. This will only further drive the already unbearable rental prices up as rental-owners look to off set this additional tax. No one will be able to make any strides if this sort of tax and inequitable policy is forced upon its people.

I do not support this policy.

s 9(2)(a) [redacted]

--
s 9(2)(a) [redacted]

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Saturday, 10 July 2021 9:42:53 PM

To whom it may concern,

- **Background:** my husband and I are "mum and dad" landlords with only one rental property that we purchased in 2019 (after working damn hard to get to that point).
- **Recommendation:** please scrap these changes, or at the very least limit them to big time investors that have 10+ rental properties (for example). These changes are only going to hurt the small fish (the mum and dad investors, and the middle class), not the big fish who appear to be the cause of all the issues that the changes are trying to address.
- Landlords will have no choice but to pass the extra cost on to tenants, and there will always be a market for renters (very few have a house deposit, or the income to support a mortgage at 18). Not only will the house prices make it impossible for people to buy, but the rental prices will make it impossible for people to live, let alone save for an astronomically priced house.
- Further, I am a s 9(2)(a) [redacted] who have shared with me how significantly these changes are going to impact on their financial welfare is staggering. That alone should be an indication of the unintended hardship that these changes would cause.

We do hope that the changes are reversed, and sense than many New Zealanders will agree.

Kind regards
s 9(2)(a) [redacted]

From: S
To: Policy Webmaster
Subject: Brightline extension and mortgage tax deductibility
Date: Saturday, 10 July 2021 10:25:37 PM
Attachments: image.png

Dear Sir/madam

Ref: Brightline extension and mortgage tax deductibility

1. Long term investors do not care for the bright line test rules. I am a long term investor, so for me, it does not matter how long the property bright line is. I bought the properties in 2009 and 2013, we still hold these properties, I keep the rent as low as I can. I tried to help people as much as I can as well.

2. Private landlords/investors are helping the government and the communities and tenants.

I am a property manager, I wish I could supply as many good houses to the people as I can, but it is hard to get enough houses for rent. If the government implements this policy, it will have a lot of people sell the houses, and hope the first home buyers could buy them. but it would be hard for a lot of people. The government would need to spend more money to build more houses to supply for social housing.

I would like to ask the government to think about what is the best way for the country and for the tenants.

My property rent in the s 9(2)(a) two bedrooms including water and lawn is $410, the market rent excluding the water and lawn could be over $500. He is the longest tenant, and only single person. I am worried that he might not be able to afford the rent. That is why. My husband has to help me to fix the tenants' damages, some times, I cry and I really don't want to do it any more. It is not an easy job.

My husband and myself worked seven days a week to have full time work and manage our own properties, so we can supply as low as we can house to people. If the interest is not deductible, our income is very limited, the only way is to reduce the quality of the house and increase the rent. Or to sell all the properties. The results of either way would affect the tenants.

If the government is going to implement the interests policy, it is not good for the Government, landlords and tenants. None of us get any benefit from it. I don't believe this is a good policy. Please think how much money that the government paid for the emergency houses since lockdown? it is a lock down, so the motel is able to be used, so it is one pocket from the other pocket. What if there is no lockdown, we have tourism and not room from motels, where do you get all these emergency houses? Does the government think whether the private landlords/long term investors are important or not?

3. What the government and IRD could do for the market and long term for the country-to implement one off 15% of stamp duty on the total sold price if the property sold within one year and ban second hand house on-sales.

For the government to control the market and promote the newly built homes is a very good policy. Some landlords are actively trying to meet the requirements for a healthy home. I tried as early as I can, once the policy is out, I start budgeting my cost and doing it one by one.

All the policies were implemented in the past but it does not control and see the results in the past. As the policy forgets one most fundamental fact is why people sold the house in a short time? Because they made money, if they can make money, who cares if they pay tax?

If the government really wants to control the market, it can be done from the demand and supply part. So if we supply more houses, the market demand will be reduced, so the price will be dropped. So we see the building industry is very hot, but now there is shortage of material supply, so the government should help to get this issue resolved as soon as possible.

The second part to help for the building is the process in the RC and BC consents process, I saw Auckland council staff work really hard for that, they also hire external expertise to help with the process, both Auckland council and the external hired expertise are outstanding. They really deserve big applause for their great jobs.

The other part is to control the people who flip properties in the market. Tax is a very good tool to lead people's activities. **Currently, tax is on the gain amount, that is not enough. The government should implement one policy: if people sold less than one year, they need to be charged on total sold price when they sold the house, solicitors will be the one to collect all tax on behalf of the government.**

I.e. one month sold, it will be charged for 20% of the sales price. Please see an example as follows: if the government tax on the gain, they don't care. There are a lot of listings on the market that are unsettled and on sale again, so the **government should ban on-sale, as you would not be able to see it from data due to the contract saying it is on sale. It currently has a lot of listings on the market. The buyer did not do any work, they did not even settle, keep the tenants and sell it again, they gain $200k to $$400k. these kinds of activities are the government and IRD should be looked at. But the solicitors and agency companies are able to see and know these kinds of deals.**

From the following table, you can see the shorter the sales, the tax rate should be higher, **if people cannot make money, they would not sell it**. This is profit driving, **you want to control the market, please implement stamp duty for the properties that were sold within one year, so 15% on the total sold price, you would see the market go quiet immediately. The market has quite a lot of listings that are on sales and without doing anything. These are the ones that fired up the market.**

after purchase time sold	purcahse price	sold price	gain amount	tax rate	tax to pay	gain amount	taxed on told price	taxed as total price	gain amount
30 days	1500000	1,700,000.00	200,000.00	39%	78,000.00	122,000.00	5%	85,000.00	115,000.00
30 days	1500000	1,700,000.00	200,000.00				10%	170,000	30,000.00
30 days	1500000	1,700,000.00	200,000.00				11%	187,000.00	13,000.00
30 days	1500000	1,700,000.00	200,000.00				12%	204,000.00	- 4,000.00
30 days	1500000	1,700,000.00	200,000.00				13%	221,000.00	- 21,000.00
60 days	1500000	1,700,000.00	250,000.00	39%	97,500.00	152,500.00	5%	85,000.00	165,000.00
60 days	1500000	1,700,000.00	250,000.00				10%	170,000.00	80,000.00
60 days	1500000	1,700,000.00	250,000.00				11%	187,000.00	63,000.00
60 days	1500000	1,700,000.00	250,000.00				12%	204,000.00	46,000.00
60 days	1500000	1,700,000.00	250,000.00				13%	221,000.00	29,000.00
60 days	1500000	1,700,000.00	250,000.00				14%	238,000.00	12,000.00
60 days	1500000	1,700,000.00	250,000.00				15%	255,000.00	- 5,000.00
60 days	1500000	1,700,000.00	250,000.00				16%	272,000.00	- 22,000.00

So there are two ways to control the market, one is stamp duty on the total sales price as one off if the total sold price if they sold within one year. The second way to do this is to ban second hand houses on-sales immediately. If these two ways could be implemented, there would be no people flip on the houses any more, and it would be all long term investors to help the government to supply houses for tenants. And also lead people to do other investments etc

4. Encourage landlords and long term investors to build more new houses for rental. Bright line test rules should be start from the date they purchased

Landlords and long term investors (hold more than five years) are helping the government, helping communities, and helping tenants.

All landlords who would like to pull down the old houses to rebuild the new houses for rent or for sale, the bright line should start from when they first bought them, as they help supply the housing stock and improve the quality of the house.

if all the landlords would like to build the new house for renting, it should be welcomed and encouraged to do so by the government and IRD department.

Thanks so much for your time to read the email and I hope the government could listen to a small hard working New Zealanders' voice, it is not just for me or our family, it is for people that most need houses-tenants and the government.

warm regards

s 9(2)

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Sunday, 11 July 2021 7:33:49 AM

Student accommodation

- Should a specific carveout for student accommodation be provided? Is it necessary?

Yes, as existing carveout for student accommodation does not include new houses that are specifically designed and built for student accommodation e.g 6 bedroom and 6 ensuite, and whereby the owner has a specific resource consent that permits this activity for student accommodation on an existing property. It is not a hostel, but clearly it is for student accommodation, and precludes competition with first home buyers, as it is extremely unlikely that they would want 6 bedrooms and 6 ensuites.

Therefore, if someone can prove with a council documentation that a new student accommodation is established such as a resource consent that specifically permits such an new activity will clearly confirm it would demonstrate exemption.

Such provisions in the new changes must accommodate the above, and not be precluded, as it clearly demonstrates.

- How could this carveout be designed to avoid capturing short-stay accommodation that could be substitutable for owner-occupied housing?

A six bedroom and six ensuite by nature would not be suitable for owner occupier unless structural changes ie alterations would be significant and usually impractical.

- How could this carveout be designed to prevent short-stay accommodation that is substitutable for owner-occupied housing from being converted so that it is not substitutable?

A building consent is required to remove the ensuites attached to the bedrooms, which means that it is uneconomic to carry out structural work to convert back to a typical house.

- How could a carveout be designed to reflect a sense of commercial scale akin to a hotel or motel?

Each bedroom must have it's own bathroom, akin to a hotel or motel that has at least 5 bedrooms and 5 ensuites.

Footnote: if the law changes does not include a 6 bedroom and 6 ensuite building that has a resource consent for student accommodation as it was built as a second dwelling on an existing property, I will still claim as deductible, as it meets the objective of housing policy of adding to the supply, and in no way does it affect first home buyers. For legal purposes, we have a legal document in the form of a resource consent that only permits student accommodation. No other activity is permitted. Period.

New Build exemption from interest limitation

- Should the new build exemption apply only to early owners, or to both early owners and subsequent purchasers?

Both early owners and subsequent purchasers. If the government is really interested in increasing supply, and not political gains, then it must be attractive for the homeowner to preserve their asset price, and for the investor to not have to think that their asset is going to erode in value because it will be worth less as an investment with the tax changes.

Footnote: As an investor who actually builds to retain, and add to the housing stock, I will not be building new anymore, if the govt intends to put more tax restrictions on new property.

- What application period for the exemption do you think best achieves the objective of incentivising (or not disincentivizing) continued investment in new housing? The options are: in perpetuity for an early owner only; in perpetuity for an early owner and for a fixed period for subsequent purchasers; or for a fixed period for both the early owner and subsequent purchasers.

None of the above. It should be perpetuity for an early owner and subsequent investor, otherwise it will be disincentivizing for the new build. The Government wanted help from developers to grow the supply side of the housing stock, but still wanted to tax this building later. Senseless and hypocritical.

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 8:26:28 AM

To whom it may concern,

In regards to the proposed additional bright-line rules...

My general understanding of the proposed change (applicable to my situation):
- Increase of the "bright-line period" applicable for rental property acquired on or after 27 March 2021 from 5 years ownership to 10 years ownership

Oppose / Support:
- In principle, I **support** this change.

Reason:
- It encourages longer-term investment of rental accommodation, thus making available more property for those unable to purchase their own home
- Reduces the possibility of speculators entering the market
- On the basis that this continues to not apply to the family home

In regards to the proposed interest limitation rule...

My general understanding of the proposed change (applicable to my situation):
- No interest deductibility applies to any rental property acquired on or after 27 March 2021
- A phased approach to eliminating interest deductibility for rental property acquired before 27 March 2021
- New builds are exempt

Oppose / Support:
- I **vehemently oppose** this proposal

Reason:
- This is wholly unfair to investors, such as myself and my wife, who have made our decision to purchase rental property based upon financial logic taking into consideration tax implications at the time of purchase
- By changing the rules to apply retrospectively the government is 'tax-grabbing' from already committed investors, totally changing the financial logic that was originally applied
- This proposal would be inconsistent with general and well-established taxation principles that allow for interest paid on investments/assets to be deducted – this has been in existence for decades
- I have no problem, in principle, with change but it must be forewarned and planned, allowing investors to make an informed decision on the facts at the time, not retrospectively
- It would introduce significant financial hardship with tax commitments rising by a factor of nearly 3 times current levels (by my calculation) resulting in thousands of dollars per year additional to be paid – this is simply unsustainable!

- The logic for this is simple (excluding R&M and other expenses that are not effected) the following example could be considered:
  - An Auckland property was purchased (prior to 27 March 2021) for the purpose of renting for $800,000 (not untypical for Auckland) with a 20% deposit equating to a $640,000 mortgage commitment. If the rental income is approx. $26,000 per year ($500 weekly rent over 52 weeks, assuming full occupancy) then at 3% mortgage rate interest paid would be $19,200 per year. Therefore, the taxable income would be $6,800 or roughly $2,244 tax to be paid annually
  - By the time the interest deductibility rule fully applies after the phased period that $2,244 tax bill would balloon to $8,580 (33% of the full $26,000rental income) – a significant increase of $6,336!
  - Where would the additional $6.3k come from? A person would have to earn $9,000 extra in paid employment (before tax) to make that money – I don't see wages increasing that much for the average wage earner in New Zealand
  - And all this is based on 3% mortgage rates – indications are that this will increase, which is manageable to investors if interest is allowed to be deducted
- It is inevitable that rents will increase. Clearly more than $6,000 extra per year could not be levied on tenants at nearly +$100 per week but even an increase of $30-$40 per week would put tenants under significant financial hardship (which is why many Tenant advocacy bodies have also opposed this)
- The proposed changes would put undue pressure on the owners of rental property to sell their investments thus possibly incurring unplanned costs due to bright-line rules – a double-whammy!
- The early sale of a property an investor could no longer afford would likely drastically disadvantage that investor's financial circumstances at time of retirement with possible socio-economic effects arising
- If the proposal is to go ahead, then **PLEASE consider** making it applicable only to property acquired **after** 27 March 2021 and not before, to allow for an informed decision to be made at time of future purchase (or at least from when the announcement was made)

Finally, please understand that the vast majority of landlords are decent Kiwis just trying to provide for themselves and their family and not be wholly reliant on the state in their retirement. Surely, that will benefit the economy. They provide a valuable service to the country by offering properties for rent, maintaining and updating them in line with the Healthy Homes rules, Residential Tenancies Act etc. There is a dire need for more housing in NZ and the Government seems to be trying to make things so much harder for landlords instead of working with them, with the ultimate aim of providing stable, warm and healthy housing to all.

I am happy to be contacted by officials from Inland Revenue regarding this submission.

s 9(2)(a)

[redacted]

Sent from Mail for Windows 10

s 9(2)(a) [redacted]

s 9(2)(a) [redacted]

11th July 2021

To whom it may concern,

Re: Submission on Interest Deductibility for new purpose Built to Rent developments

Brief Summary

This is a submission that strongly advocates for policy decisions that support development of more high quality rental accommodation. We are happy to be contacted.

We are developers of an award winning sustainable build to rent apartment development in s 9(2)(a) [redacted] We have recently completed s 9(2)(a) [redacted] Where 4 people previously lived in the rundown bungalow, we now s 9(2)(a) [redacted] tenants with environmentally friendly, socially sustainable and economical rentable housing.

Our built to rent development on a single THAB zoned site has required an investment s 9(2)(a) [redacted] The funding plan with our bank (ANZ) was based on a 20 year business case. We sold 7 of our existing properties, several to first home home buyers, to release the capital we required. Our CCC has been issued after 27 March 2021.

To provide high quality rental accommodation we invested more than most developers up front and spread our income benefits over that 20 year period.

Over the 20 years we estimate this up front investment will;

- Save our residents over $400,000 in power, water and internet costs over current s 9(2)(a) [redacted]
- Save 10-15 million litres of water compared to current s 9(2)(a) [redacted]
- Produce 36 tonnes less landfill compared to current s 9(2)(a) [redacted]

Over the life of the building we estimate this up front investment will;

- Save 7200 tonnes of CO2 equivalents compared to an average new build
- Support our 30 residents to live more cooperatively and communally with each other and the neighbourhood, leading to better health outcomes and higher quality living

These benefits only arise from long term focus on improving rental housing quality and sound business planning, they do not result from short term speculative behaviours.

Removal of interest deductibility at any stage during our business case period would make our long term business plan unviable. It would also make it unviable in the future for others and that would be a huge loss to the potential growth of high quality build to rent s 9(2)(a) [redacted]

We strongly believe;

1. <u>All purpose Built to Rent</u> developments should be exempt from the change to interest deductibility rules for early owners where the CCC was issued after <u>31 March 2019</u>. This acknowledges the planning horizon for these much needed projects. See below.

2. Thresholds for definition of build to rent for the purpose of an exemption should be <u>set low enough to accommodate purpose BTR on single sites</u> (10 dwellings or more). This will encourage continued BTR development on single THAB sites s 9(2)(a) [redacted] and similar zones in other cities. See below.

3. Exemptions for new builds, including build to rents, should be '<u>perpetual</u>' for early owners. A limit to the exemption would negatively impact the business case for new BTR developments, and availability of rental accommodation in future years. See below.

<u>Built to Rent - grandparented CCC exemption date 31 March 2019</u>

We are fortunate that our CCC was issued after 27 March 2021.

Our 5 year journey and financial investment to design and build exemplary rental accommodation could so easily have missed the arbitrary 27 March date.

Although we have only recently completed and occupied our build, we had invested s 9(2)(a) [redacted] by 31 March 2019 in consents, surveys, concept designs, research, etc, and had signed the build contract committing us to many $millions more.

For the purpose of non-speculative provision of much needed rental accommodation we believe this investment horizon needs to be acknowledged and considered for the setting of the exemption date.

Considering the cash flow and financial commitment milestones on our own apartment project we believe the exemption qualifying date should be set to grandparent BTR developments with CCC issued after <u>31 March 2019.</u> This will avoid undermining BTR business cases where prudent use of the prevailing tax laws had been applied.

<u>Built to Rent size thresholds - 10 apartments or more</u>

The s 9(2)(a) [redacted] we have built are the maximum number our single THAB site would feasibly accommodate.

We initially planned on building up to s 9(2)(a) [redacted] After time spent with our (leading) architects and council, considering apartment amenity, site orientation and outlook rules, height to boundary limits, building coverage limits, and neighbour impact, we concluded s 9(2)(a) site. This was even with pushing the boundaries of recommended minimum apartment sizes. The geometry, aspect and proximity to neighbours of our site is common s 9(2)(a)

The development potential for s 9(2)(a) will drop dramatically if the build to rent size threshold for interest rate deductibility is set too high to be feasible for a single site.

The opportunity to purchase and amalgamate adjacent properties will support larger BTR developments and this is desirable. However, the availability of multiple adjacent sites is limited and the capital investment is much higher (at least double) and excludes developers of our size.

Developers of our size include those with around s 9(2)(a) tied up in multiple old style rentals that can be sold (to first home buyers) and the funds invested in a BTR project of our type. We have presented to property investment associations on this, offered our assistance, and already a number have shown interest in making this transition.

Given the number of THAB sites in s 9(2)(a) and the number of potential developers of our size, we believe that BTR development potential will be significantly reduced if the threshold for interest rate deductibility exemption is set higher than 10 apartments.

Perpetual exemption for early owners of BTR developments

A 20 year business case such as ours, for the development of high quality rentals, relies on projecting sustained net rental income over this period. It also relies on debt to equity reducing at a rate for banks to be happy to support these longer term commercial funding proposals. These were fundamental to getting funding for our project.

Removing the exemption for interest deductibility during the business case period would significantly undermine the business case. Specifically, the ability to service the debt over a longer period. If we are to encourage up-front investment in quality housing features, and profits spread over a longer time (to avoid rapid rent rises), we need to support business cases that may be up to 30 years.

This in turn will encourage investment in features that provide better amenity (e.g. common areas, gardens, guest rooms), cost savings for the residents (e.g. superior insulation, shared utility services), and better environmental outcomes (e.g. low waste systems, sustainably sourced materials, bike space).

Our forecasts also show this thinking will provide a better long term business return.

So, we strongly believe that those who invest in building new rental accommodation need to be encouraged to think long term, and a limit to the interest deductibility exemption period would encourage the opposite.

Additionally, one expects the BTR owner may look to sell the properties as the exemption expiration date looms. Or perhaps before it looms, so that there is no negative impact yet on the market value of the property. This will lead to loss of rental accommodation at a somewhat pre-defined stage of their life. Tenants will lose their rental security in the years leading up to this. Even if laws then changed to prevent giving tenants notice on sale then this will just further reduce the number of developers willing to enter the BTR business.

We believe a limit to the exemption period for BTR development will create a cascading kind of problem that will work its way backwards from whichever expiration date is chosen.

We think this is the wrong thing for a country that is starting to accept that renting for life will become more normal in the future for more of its citizens (as other major cities have accepted).

There should be no expiration date for the interest deductibility exemption for early owners on Build to Rent developments.

Closing

We are passionate about building a new generation of secure high quality rental accommodation.

We support the overall intentions of the changes being made to discourage the trading of property by non-owner-occupiers, to release more homes to first home buyers.

We also know we will be fine personally.

However, we believe a very special effort has to be made to provide for the production of more high quality rental accommodation. New purpose built rental accommodation is critical to this, so we believe that it is important to avoid adding further barriers to this category of housing development.

The affordability of houses for first time buyers is indeed a critical issue, but the provision of homes for renters who will never find the $100,000 or so deposit to buy one, is perhaps more important.

Thank you for your time to read and consider our feedback.

Yours sincerely,

s 9(2)(a)

[redacted]

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Cc: s9(2)(a) [redacted]
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 12:21:27 PM

To whom it may concern,

My wife and I have been property investors for 20 years. We have undertaken small scale developments and rent out our properties which all meet or exceed the requirements of the Healthy Homes requirements and we have never sold one. If we were not property investors then a lesser number of homes would have been constructed.

We believe that the proposed changes to interest deductibility rules would provide the opposite effect to that which the government is seeking.

- These changes will make it more difficult for ourselves and others to build new houses as although it may still be possible to get interest deductibility on any new houses which are built the elimination of interest deductibility on the houses which we already own will make our portfolio of properties less economically viable and it less likely that we will be able to build additional houses in the future.
- The elimination of interest deductibility will make the economic viability of the properties which we already own less, and thus will put further pressure on us to increase our rents and increased rents will be to the detriment of renters and make it more difficult for prospective first home buyers to save a deposit.

We have developed a number of properties and constructed houses where we have constructed more than one house on a single title. These properties have been developed specifically as rental properties and with two houses on the one title are very unlikely to be the type of property which a first home buyer or even a property owner who is trading up is likely to want to purchase. Thus if interest deductibility is maintained on these types of properties then the provision this type of property will not be in competition to first home buyers or those wishing to trade up. It will actually assist us in the provision of additional houses for rent.

As properties where more than one house is located on a single title are typically constructed as rental accommodation and their sale and purchase is not typically in competition to first home buyers or those looking to trade up, interest deductibility should be retained for these types of properties.

In summary:

- I opposed the proposed legislation.

- If the legislation proceeds then interest deductibility should be maintained where there is more than one dwelling on single title.

I would be more than happy to discuss these matters further or answer any questions which any of you may have.

Regards
s 9(2)(a) [redacted]

s 9(2)(a)

From: APIA Admin
To: Policy Webmaster
Cc: s9(2)(a)
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 1:02:40 PM

Sir/Madam

1. Background

1.1. This submission is made on behalf of members of the Auckland Property Investors' Association Incorporated ("APIA"). We are an independent and non-profit organisation that provides education and networking opportunities for property investors and have been operating since 1995.

1.2. We based this submission on our members' responses to a survey we conducted on the subject matter of this consultation. The matters raised in this submission represent a high-level overview of our members' perspective on best design suggestions for the interest limitation rule and additional bright-line rules.

1.3. We preface these remarks by stating to you explicitly that **our organisation is against the introduction of interest limitation**. Not only is it an unprincipled approach to taxation in general, but it will also lead to long-term and negative financial effects on landlords, their tenants, and first home buyers. These effects include, and are not limited to:

- increase in compliance and administrative cost that outweigh the benefits of an overly complicated tax system;
- cost recuperation by landlords in the form of sharper rent increases creating additional cost pressure on tenants who are saving for their first homes;
- market distortion and unnecessary competition for first home buyers as a result of promoting investors' demand in the new-build market.

1.4. We are also of the view that given the seismic shift of this policy seeks to tax treat investment properties, **it is imprudent to shorten the usual 6-month consultation period to a mere 4.5 weeks**. This shortened timeframe is grossly insufficient for the government to design a robust policy.

1.5. Nevertheless, we are cognisant that the scope of the consultation does not extend to whether interest limitation *should* be policy but rather *how interest limitation as policy can best be designed*. On that basis, we make these recommendations:

2. On the definition of a *new-build*

2.1. On renovating an uninhabitable dwelling so that it becomes habitable

2.1.1. **On whether a *new-build* should include renovating an uninhabitable dwelling so that it becomes habitable: we think yes**. Bringing a previously uninhabitable property up to habitable standards (major/extensive renovation) materially adds to the housing stock whereas a minor renovation does not. Difficulty relating to differentiating between major and minor renovation should not, in effect, disadvantage any property investor who undertakes such work especially when you are prepared to overlook the same administrative difficulty and accept a one-for-one dwelling replacement as sufficient for a simple new build (second bullet point, paragraph 7.5, pages 73-74 of the discussion document).

2.1.2. On whether there is some tool that could be used to identify when a dwelling that is completely uninhabitable has been improved significantly, such that it has added to housing supply: suggestions from our members include

- relying on before and after inspection reports by local councils or registered valuers;
- referencing the building consent process and issuance of Code of Compliance Certificate ("CCC");
- a specific statutory provision giving definitions to *uninhabitable dwelling* and *habitable dwelling* for the purpose of determining eligibility for exemption from interest limitation; and
- incorporating the Healthy Homes Standards in defining what is *habitable*.

2.1.3. Granting major renovation work of this nature the status of a *new build* could create the perverse incentive for existing owners to allow a property to fall into disrepair. To promote the supply of healthy and safe rental housing, **we suggest that new-build status of this nature be granted only to owners who acquire a property in an uninhabitable state** (and subsequently brings it up to habitable standards) and not those who have, in the time of their ownership, allowed a habitable dwelling to fall into a state of uninhabitable disrepair and subsequently restore the same property back to a habitable standard.

3. On new build exemption from interest limitation

3.1. On your general rule to apply exemption only to new builds that receive CCC on or after 27th March 2021: **our members' view is that the designated milestone date (27th March 2021) is arbitrary.** Not only does it undercut the integrity of the tax system its application would also lead to an increase in compliance and administrative costs for those investors who transacted on or around that date. These investors should not be unfairly disadvantaged (or advantaged). Given that the intent of the policy is to increase the supply of housing and considering the unexpected nature of the government's announcement of its housing policy on 23rd March 2021 (rendering little chance for investors in a midst of a transaction to mitigate their tax loss) our view is that that it would be appropriate for **the new build exemption to cover any dwelling that receives its CCC on or after 1 April 2020**.

3.2. On whether new build exemption should apply only to early owners, or to both early owners and subsequent purchasers: our members' preference is for the former, **that exemption be only applied to early owners**. However, should the exemption be also granted to subsequent purchasers, we consider it appropriate for the **exemption to expire 10 years from CCC issuance applicable to both early owners and subsequent purchasers**.

3.3. 60% of our members **disagree with the proposed *continued investment rule*** that seeks to truncate a new-build's eligibility for exemption from interest limitation by the mere act of the owner moving into the property (even if it is for a short period of time). Given the severe shortage of rental properties, it would be imprudent to restrict (new-build) owners' ability to accommodate and meet their changing circumstances by financially disincentivising them to return a one-time owner-occupied new-build back into the rental pool. We think the policy would be more able to achieve its stated objective of promoting access to housing (whether by ownership or by renting) if the exemption to interest limitation is restored once an owner-occupied new-build property is returned into the rental market within the period of exemption.

4. On interest allocation

4.1. On the treatment of new loans drawn down post-27th March 2021 that, in effect, refinances a pre-27 March 2021 loan, our members' strong preference (89.3%) is for the **new loan to benefit from a specific provision** (which we understand to be that the new loan would receive the same tax/interest limitation treatment as if it is the original pre-27 March 2021 loan).

4.2. On the proposed approach to a high water mark: **we disagree with the approach and recommend that the total limit of the revolving credit on 27th March 2021 benefit from the specific provision** (see paragraph 4.1. above). A high water mark test that is underwritten by an arbitrary date (27th March 2021, see paragraph 3.1 above) fails to account for the seasonality or conventional business cycle of property investing (which can be broadly predicted by the due dates of GST, provisional tax, insurance and rates). Should 27th March 2021 fall at a low point of an investors' borrowings then that investor is unfairly disadvantaged by this arbitrary date.

4.3. On suggestions as to any commercial reasons for a NZD loan to be restructured to a foreign currency loan, our members' feedback are the following

- to take advantage of a lower interest rate/more favourable financing terms;
- to facilitate the purchasing of an overseas property which may include collateralising an NZ property; and
- to minimise the actual cost of repayments by utilising exchange rate movements.

5. Thank you for the opportunity to give feedback on the design of the interest limitation rule and additional bright-line rules. Should you consider it appropriate and necessary, representatives from our organisation will be available to elaborate on matters raised above.

s9(2)(a)
[redacted]

--

Your like-minded community of property investors. From beginner to experienced.

w. www.apia.org.nz
e. xxxxx@xxxx.xxx.xx
f. /i.like.apia

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the Interest Limitation Rule and additional Bright Line Rules
Date: Sunday, 11 July 2021 2:06:51 PM

I am opposed to the proposed Interest Limitation Rule for the following reasons:

- I believe it is unfair to dissallow interest deductability for property investors when other businesses are still able to claim deductability on mortgage interest.

- I think the effect of this will be to increase rents (at a time of housing crisis) and will lead to reductions in the quality of the housing stock, as many landlords will have to defer maintenance if they can't pass their increased costs to their tenants.

- Another consequence, I believe, will be that there will be fewer properties in the private rental market, as some landlords will have to sell up, leading to more competition between tenants and upward pressure on rents.

I am opposed to the additional Bright Line Rules for the following reasons:

- I believe this would basically be a capital gains tax by stealth. The current five year Bright Line, is, in my view a sufficient length of time to deter "property speculators" which was it's intended purpose when first introduced.

s 9(2)(a)

PUB-0261

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Cc: s9(2)(a) [redacted]
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 2:10:56 PM

Dear Sir or Madam,

<u>This submission is with regard to the removal of mortgage interest deductibility for investment properties.</u>

My name is s 9(2)(a) [redacted] I am a part-time "mum & dad" property investor who has saved & sacrificed to diversify and build our family's asset base during our working lifetimes, to sustain us in retirement.

I acknowledge the intent of this policy; to reduce investor demand for residential housing and "tilt the balance" in favour of first home buyers.

<u>I strongly recommend an exemption on "investor-only" properties that are not suitable for owner-occupiers, and have been specifically designed and built with the intention of being tenanted (existing "build to let" properties).</u>

We own a property that was specifically designed and built "to-let"; it consists of a small shared common area & laundry, and s 9(2)(a) [redacted] individually-let studio apartments, that each contain a private bathroom and an open plan bedroom, living room & kitchenette. We let these studio apartments fully-furnished. We bought this property s 9(2)(a) [redacted] Most of our tenants have been students at the near-by university, locum staff at the near-by hospital, or young couples that have just left home and want an affordable space to themselves without joining a flatting situation.

- This property is not a single family home.
- This is one property on a single title, the layout was designed and built such that it functions as s 9(2)(a) [redacted], individually lockable, individually tenanted, studio apartments. The individual studio apartments are not able to be sold separately.
- This property is not suitable for an owner-occupier. No owner-occupier or first home buyer would ever be interested in this type of property.
- Bank lending is difficult to obtain on this type of property, many banks simply will not accept it and other banks often consider it commercial, this accompanies a higher deposit and higher interest rates (and often cross-collateralization with the owner's primary home; something a first-home-buyer or owner-occupier-buyer would never be able to offer), meaning no first-home or owner-occupied buyer would ever be able to purchase this property.
- This type of property attracts higher council rates than a standard single family home.
- This is strictly an investor-only property. I could only ever on-sell this property to another investor.
- This is the type of property that investors should be encouraged to own, not dissuaded from owning.
- An investor owning this property does not remove housing stock from a first home buyer.

I have not increased rents in all the time I have owned this property, which has been possible because of lowering costs thanks to reducing interest rates. I understand the length of my tenancies are likely only one or two years, and I believe keeping rents affordable gives my tenants the best chance of achieving their next life goal - which may be saving for, and buying a home of their own. The removal of interest tax deductibility will drastically increase my costs over the long term, meaning I will no longer be able to afford my tenants this same kindness. While also negatively impacting my family's retirement planning goals.

I have heard that boarding houses will likely be exempt from the removal of interest deductibility rules, this type of property only narrowly avoids being classified as a boarding house, yet it serves a similar purpose.

It is for these reasons I believe that these "investor-only" designed & built "to-let" properties should be exempt from the removal of mortgage interest deductibility rules, or at least should require a clarification of their position in the law - as they fall somewhere in the grey area between "residential", commercial & boarding house (two of which remain exempt from removal of mortgage interest deductibility).

Yours faithfully,

s 9(2)(a)

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Sunday, 11 July 2021 2:28:02 PM

To whom it may concern

We arrived into New Zealand in 2002 and have been contributing to the New Zealand economy ever since. With hard work and the will to be financially independent when we retire, we worked hard to be able to purchase investment property in 2018 providing new homes for our tenants compliant with Healthy Homes charging reasonable rent and choosing not to increase the rent when happy tenants chose to renew their contract.

We agree that New Zealanders deserve a home to call their own – whether renting or owner occupier. We believe that New Zealand is a land of opportunity where there are job opportunities and a social system that provides many more benefits than the country we came from.

We believe investment property ownership is for the long-term therefore the bright line test is understandable, and we don't have an issue with this form of capital gains tax.

In business, if you provide a service or product, the expenses derived from producing that product or service, should be tax deductible. This should be the same for interest deductibility on investment property. Removing this would force landlords to increase rent when they wouldn't have otherwise. Landlords have sacrificed to own that property and provide homes for tenants. Mom & Dad investors like us made decisions at the time of the purchase. Changing the rules now does not do much to help the government's goal. If this forces us to sell our properties, our tenants lose their homes. If we sell our existing properties to purchase new builds this may result in more competition for first home buyers. Increased demand and lack of stock will drive the prices of new builds up. This situation does not help anyone. If the government believes in removing the tax deductibility on a legitimate business expense such as the interest, then this should only be applicable on properties that are purchased from 27th March 2021 when the announcement was made and not on properties that are already providing homes to the very people the government is trying to help. In summary, I believe the removal of interest tax deductibility should only apply to existing properties purchased after 27th March 2021.

Our plea is that the government should not negatively affect hard working New Zealanders who aim to be independent whilst providing safe, warm homes for tenants by making retrospective changes and should only make changes where people can make their choices based on the new information.

Yours sincerely
s 9(2)(a)

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 2:41:39 PM
Attachments: IRD Investment Property Rule Changes.pdf

To whom it may concern,

Please find my submission attached.

Kind Regards
s 9(2)(a)

---

10 July 2021

To whom it may concern,

I would like to submit my thoughts and concerns on the changes to the investment property rulings.

Firstly, I would like to tell you a little about my situation and the impact these changes will have on me – as well as, undoubtedly, many more Mum & Dad investors who comprise more than a third of the investment property owners in NZ.

I am a s 9(2)(a) [redacted] that is looking to provide for myself in my retirement. I do not see the government having the ability to do so adequately.

In January 2021, with house prises constantly rising, I decided it was time to purchase a rental property. This was a stressful option for me, a single income earner, but I knew I could not rely on the government to provide for me in the future. My income would not rise at the same level as the rapidly escalating house prices. I was approved for a mortgage, allowing me to look at entry s 9(2)(a) [redacted]. I would have loved to purchase a new build but unfortunately, I was unable to borrow the funds to do so – therefore this option was out of the question.

The government changes have not stopped me on my quest but will majorly impact my cashflow. The inability to deduct interest payments has doubled the shortfall I was already going to have to cover. I now look for ways to increase my income by either a boarder or a second job, still feeling that I need to provide for my own, and my childrens', futures. I work hard for what I have and will struggle to provide for my retirement. I have paid taxes for this all my working life.

Property investors and landlords serve a function in NZ. Without them, how would our people be housed? Currently the government is most certainly not meeting the needs of our country's housing shortage.

The facts as I see them:

There is a difference between property speculators and your average Mum & Dad investor.

Interest Deduction/Removal: I believe that Mum & Dad investors with one or two properties are not the problem and they should be encouraged to invest in their future when the government won't be able to do so. We are not property moguls and are only looking to provide for our future, and not be a burden on the taxpayer later in life. This should be encouraged by the government and to this end **the ability to have 1 or 2 investment properties, where they are able to continue to deduct interest, should remain.**

Cost and stress increases: the constant moving of the goal posts when New Zealanders are trying to provide for their futures is unfair. For example, the Healthy Homes Standards (which I do predominantly agree with, albeit my own home would not comply!), the changes to tenant rights, the recent changes to the Bright-Line and ring-fencing taxes, and now these proposed changes. All these changes impact our financial and mental health. Landlords, who fill the need to house a large percentage of New Zealanders, have already had a great amount of cost and mental anguish to deal with. It must be remembered that they provide a very important role for the country and should be encouraged rather than discouraged.

Business practice: There are no other businesses in NZ where you cannot deduct **all** costs from the income and pay tax on the bottom line, as is this scenario. To suggest this is a tax loophole is ludicrous.

New Builds: I believe it is unfair to make different rulings for ‘current housing stock’ and ‘new builds’. The price to build is high and would not be an option for many people, due to continued increasing prices and lacking supply of building materials. I see this option as being more for developers, further penalising Mum & Dad investors.

Bright-Line: Life can change considerably and sometimes the best laid plans cannot be followed. For many first home buyers it is not easy to purchase alone, or in Auckland, so for them to get their ‘foot’ in the market they are purchasing with others or buying provincially; life changes a lot in 10 years thus I believe that the existing 5 year Bright-Line legislation should remain.

New Zealand needs investors/landlords. The owning of rental property is not for the faint-hearted, particularly with the continued changes to costs and rulings. Fortunately for NZ there are still investors willing to take on the risk and stress, albeit to provide for themselves in the future also.

As our government, you have Mum & Dad investors’ futures in your hands – please do what is right and help us to provide for our own future, so we are not a tax burden later in life.

I believe the average New Zealander should be encouraged to provide for their own futures, without being penalised, as the government will not be able to adequately do so. If this comes in the form of property investment, then I believe you should have the ability to purchase and deduct interest on <u>one or two</u> rental properties going forward.

Yours sincerely,

s 9(2)(a)

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Changes to Interest Deductibility
Date: Sunday, 11 July 2021 2:57:57 PM

I am a small investor whose only source of income is from residential rental. The bright line test does not interest me because I don't intend to sell and I don't fall into the category where I haven't had the property for less than 10 years.
I invested in residential property, because I did not s 9(2)(a) [redacted].
I developed my first investment with 100% borrowing and interest only because after paying outgoings plus interest, there was not enough to pay back the mortgage.
I invested in a couple more properties by borrowing. Buying old houses and fixing them up and renting them out.
My properties have always been kept to a good standard because I don't believe in being a slum landlord. I charge below market rent (the housing corp. charges more than I do for inferior properties).
I could go on but the crux of the matter is that to me it is a business, and without interest deductibility, I would be severely affected. It is my only source of income to support my family.
To me the interest deductibility is not a loophole, but a legitimate expense in earning my income. I am a long term investor, not a speculator. Anyone who thinks of interest deductibility as a loophole, is either naive or does not have any business sense.
I am not interested in capital gain, only in earning an income from my assets. At 69, I'm not interested in buying or selling but maintaining a lifestyle that I have worked so hard to achieve.
I fall into the category of getting four years of reduced interest deductibility. The point is that I cannot pay my loan off in four years and therefore I would still be paying interest. I cannot fathom why we cannot have interest deductibility when it is a genuine expense in running a small property portfolio as a business.
Considering that rates and insurance are always increasing, repairs + maintenance costing more every year (because of wages + materials increasing) and having interest as a main expense, I would be going backwards.
It seems that the government is penalising and stifling those that take initiative and risk to create income for themselves in order not to be a burden on the state.

s 9(2)(a) [redacted]

PUB-0265

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Sunday, 11 July 2021 3:15:20 PM

Submission regarding the Design of the Interest Limitation Rule and Additional Bright-Line Rules:

We do not agree that interest incurred to fund an income earning asset should be deemed non-deductible for income tax purposes. This contradicts normal tax laws and principles. We understand that the Government is attempting to remedy the housing crisis and unaffordability, but do not agree that this concept will assist. Residential landlords from 2020 onwards have not been able to utilise losses incurred on rental properties, apart from against other rental income or taxable rental gains. This legislation stopped the ability to assist landlords funding for property via tax refunds on an annual basis. The past three months have shown that the effect of the interest deductibility announcements have already worn off and the housing market, especially in Auckland, is continue to grow with regards to demand and prices. Punishing landlords, most of whom have worked and saved their entire lives to buy one or two rental properties with the aim to subsidise their retirement, will not correct the nation's housing issues.

If the Government does enact the interest limitation rule then any interest that is not able to be claimed against rental income should be able to be off-set against any taxable bright-line property sales. If that principle is not adhered to then the taxpayer is being double taxed in an overreaching manner. We highly recommend that Option B or C per the consultation document (pages 58-59) apply

Our tax system is already complicated and the new consultation document regarding these rules only highlights the further complications that will be enacted. There will be four separate rules regarding the bright line test and property, as well as interest limitation complications:

- Purchased before the rules and therefore not applicable;
- Purchased during the two year rule;
- Purchased during the five year rule; and
- Purchased during the 10 year (10 year and interest limitation for some properties, and 5 years and no interest limitation for others).

The above will be time consuming for accountants and tax advisors to grasp and full understand, let alone the tax payer and their compliance costs. The IRD states that it wants the tax system to be fair and simple. The forever changing construct of these land tax rules only further complicate our tax system. A flat rate capital gains tax on all properties not deemed to be a main home would have been the most appropriate solution.

We are also concerned for residential tenants and first home buyers. The design of the new land tax rules leads to, what we believe, an imbalance towards land developers. First home buyers will be competing with investors for new build properties, they will not be able to compete with land developers for existing properties with freehold land and therefore will be forced to look at cross-lease and existing unit titles, which have their own complications. Further legislation enacted over the past 3-5 years has increased the cost and compliance for landlords and therefore led to higher rental costs for tenants. If landlords are disincentivised to retain existing properties, and focus solely on new builds, the rental market pool will decrease and therefore the rental costs will naturally increase. There is currently an exponentially growing problem for emergency and transitional housing that will only be exacerbated if the rental market is negatively affected by these rules.

We do not believe that an extension of the 5 year bright-line rule to 10 years will have a material impact on the tax revenue for the IRD. Those that are currently residential landlords hold these properties, and intend to hold these properties, for an indefinite period. The extension to 10 years does align with the current period for other land tax rules contained in section CB of the Income Tax Act 2007.

Kind regards,

s 9(2)(a) [redacted]

[redacted]

Moore Markhams Auckland
Accountants and Advisors

s 9(2)(a) [redacted]
www.markhams.co.nz

Moore Markhams Auckland
Level 1, 103 Carlton Gore Road, Newmarket, Auckland 1023, PO Box 2194, Auckland 1140, New Zealand

PUB-0266

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Sunday, 11 July 2021 3:16:13 PM

Why are new builds going to be allowed interest deductions long term when other builds which create more new accommodation wont?
Example a reno which creates more rooms or rentable parts of existing dwelling should be allowed same deductibility.

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Residential Investment Property Interest deduction limitation.
Date: Sunday, 11 July 2021 3:37:33 PM

Please find the following submission on the loss of ability, by a residential property investor, to claim loan interest costs as a tax deduction.
I own a number of residential properties in the s 9(2)(a) [redacted].
As at the date of this submission, we are yet to make a profit.
We currently rent our properties at a rate that averages 15 to 20 percent below market rentable values for the areas, and our tenants are happy with this, and are able to better pay their power bills etc., without further government assistance.

With the introduction of the new Loss of Interest on loans deduction, we will be forced to do one of three options, or a combination of the following.

Sell the houses, or some of the houses.

Increase rents to market rates (15 to 20 %)

Get secondary employment s 9(2)(a) [redacted]

When we canvassed the tenants with these alternatives, all said they would rather have a rent increase than have their houses sold, as they were very happy with their homes and knew there was a lack of quality affordable homes to relocate to.
Also, apart from one family, none are currently looking to buy a house, or are unable due to age or circumstances. An example is one tenant, s 9(2)(a) [redacted], who lives alone.
We ask the government to please reconsider the introduction of this policy, for everyone concerned.
Thank you.
s 9(2)(a) [redacted]

From: s 9(2)(a)
To: Policy Webmaster
Cc: s9(2)(a)
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 4:09:43 PM

To whom it may concern,

Name: s 9(2)(a) residential landlord, interest limitation rule.

I wish to raise my concerns with the proposed changes regarding removal of the ability to claim interest as an expense affecting private landlords with rental properties .

Rental property ownership is in the business of providing homes and as such we should still be able to claim interest as an expense.

The proposed new rule directly impacts private rental landlords and its to be noted that the government's exemption from this rule change means they'll continue to be able to claim interest on the homes they provide via Kāinga Ora. Private rental landlords should be treated the same rather than being singled out.

The interest expense has been classed as a loophole according to this government (I feel incorrectly as it is a legitimate expense) which means the government, should these changes go ahead, would still be using their classified 'loophole'.

There have been many recent legislation changes already affecting private landlords that have all had an impact on the bottom line ie depreciation, ringfencing, healthy homes (which I agree with, better homes for all) bright-line etc these changes are currently being heavily felt by the private landlords sector
even before the proposed interest expense changes are implemented.

NZ already has a large waiting list for homes and implementing these interest rule changes stifles the very people who provide rental homes to the point where they could take other options e.g Air Bnb/holiday homes that can claim the interest as an expense thereby further reducing the available rental stock and increasing the waiting list for homes.

We play an important role in society providing over 80% of homes to renters and yet we have been continually targeted in recent years. I would suggest that as we are supplying a much needed service of providing homes that we should be encouraged to continue this role with government support rather then being persecuted.

Please take this submission under advisement and support the sector that has been the backbone of rental providers for many years.

Thanks
s 9(2)(a)

From:	s 9(2)(a)
To:	Policy Webmaster
Cc:	s9(2)(a)
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Sunday, 11 July 2021 4:10:16 PM

Kia ora

Below is my submission regarding the design of the interest limitation rule and additional bright-line rules. This submission is from myself in my personal capacity and not of the organisations I am involved in.

Executive summary:

1. I submit the proposed law change on interest deductibility should be scrapped altogether

2. I submit that if it is to be brought in then, the interest deductibility being phased out should not be the case. It should truly be "grandfathered" where all existing property owned should not be affected and it should be all new property purchased where the interest isn't deductible. Many investors will be extremely adversely affected by this and will arguably be worse off financially than if they had done nothing. This also would have a direct effect on the supply of housing for first home buyers, where existing investors will not "compete" with them.

3. Definition of a new build (clause 8.6) : I submit that "new build" be defined as any new build with a CCC issued on or after 27 March 2020 (one year before the govt announcement). So any house with a CCC issued on or after 27 March 2020 is eligible for the new build exemption.

4. I submit that where property either is acquired or already owned and is used for development by adding to the housing stock, then all the debt should be tax deductible under the new build exemption. This includes the initial debt on the property and the debt for purchasing the existing property that will now be developed.

5. I submit that the "developer" exemption is renamed. Being a "developer" has different connotations in the other parts of the Income Tax Act. I believe you should be exempt from the new rules if you are building a new build to rent out, but I object to it being called "developer".

6. I submit where property has (or will be) converted into offices/commercial premises that it is clear they are exempt from the new rules. There are many offices/doctors surgeries etc that have been converted from homes to commercial premises. Arguably these could be returned to the housing stock, so should not be caught under the new rules.

7. I submit more care should be made around the "high water mark" proposal, where the "high water mark" is the balance on the 27th March 2021. This will be unfair to many tax payers who may have temporarily paid down their debt on that day.

Background
s 9(2)(a) [redacted] who twenty years ago when we first started work wanted to ensure we would have a reasonable retirement as opposed to relying on the NZ Super which we were even concerned wouldn't exist when we reached retirement. We therefore invested in property since that time. I am also a s 9(2)(a) [redacted], and the majority of them are "Mum and Dad" investors who are just trying to improve their financial stability. I am also on the board to s 9(2)(a) [redacted] both of these organisations are not for profit organisations which focus on education for landlords and supporting legislation which improves our tenants situations without any detrimental effects.

Impact of changes to interest deductibility rules
The impact of these new rules will be hard felt. I have many clients who in 5 years' time will be facing a $50k tax bill, while only earning a modest salary. They will be forced to sell some of their properties just to pay the tax, which doesn't make financial sense to them. There are other investors who would usually spend substantial money renovating their properties and may not be able to afford to do this now. Many are looking at increasing their rents in order to cover the additional costs. While I realise the policy is designed to increase the "first home" buying stock, there has and always will be tenants, due to a wide range of reasons, students, work secondments, newly migrated New Zealanders, others that choose to rent where they want to live while buying elsewhere. By exempting new builds, this means that arguably investors will only by new builds and rent these out. That means first home buyers will only be able to purchase existing housing stock as the price of new builds will increase substantially faster than the existing housing stock.

Thank you for the opportunity to give feedback on the design of the interest limitation rule and additional bright-line rules. Should you consider it appropriate and necessary you are welcome to s 9(2)(a) [redacted] to discuss the above further if required.

Thank you for your consideration

Kind regards

s 9(2)(a) [redacted]

SHORTLAND
CHARTERED ACCOUNTANTS

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 4:20:55 PM

I wish to submit the following on the proposed new policies:

Removing interest deductibility for landlords' mortgages in manifestly unjust as it singles out landlords from every other New Zealander and deprives them of a concession that everyone else is permitted. It is unjust because it effectively taxes landlords on income they have not received. It is unjust because it makes, without warning, a very large change to calculations many have used in planning their retirement. It is an attack on middle income New Zealanders, an attack on retirement and as it will disproportionately impact older Pakeha, it is both racist and ageist.

The 10 year bright-line test is completely unjustified. Liability for tax on capital gains has for a long time depended on the taxpayer's intent at the time an asset is acquired. The 2 year bright-line test introduced by the previous government was a reasonable, if crude way to bring some certainty to the difficult question of determining intent. It was assumed that someone who sells a property within 2 years of purchase, bought it for the purpose of making a profit. Extending this test to 5 years is difficult to justify. Personal circumstances change, interest rates go up and down, there are natural disasters and pandemics. An individual may be forced to sell a property acquired with the intention of long-term use. By the same arguments, extending the test further to 10 years is a nonsense and completely defeats the idea of proving intent. It is a capital gains tax, imposed by a government elected on a specific promise not to introduce such a tax.

Not only are these measures unjust and unjustifiable, they are pointless. They are proposed as solutions to the problem of rapid house price inflation. Previous initiatives - the ban on foreign buyers and the 5 year bright-line were also supposed to cool the property market but failed for the same reason the latest proposed measures will fail - they do not address the underlying problem which economists almost universally agree is lack of housing supply.

The government seeks to make older New Zealanders, those saving for retirement and people providing the useful and necessary supply of homes to rent, into scapegoats for its own failure to build large numbers of affordable homes.

s 9(2)(a) [redacted]

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 4:40:46 PM

Dear Sir/Madame,

Please consider this submission on the definition of a "new build".

My husband and I want to see more New Zealanders be able to get into their own homes. It is hard to save for a deposit while paying large amounts of your income on rent. We started buying new build purpose built room by room rental properties at the beginning of last year. We saw the huge benefits they provided for people trying to save for a deposit. All our properties are fully furnished and only have 4 or 5 bedroom's (so not large boarding house type properties) and each bedroom has its own ensuite bathroom. The rent our tenants pay is fixed and is inclusive of all electricity, gas, water, internet, Netflix and common area cleaning. We keep our rent low and have never increased the rent our tenants pay. Our tenants can easily live within their budget, pay affordable rent and live in a new warm, dry, double glazed house they share with only a few other tenants who are in a similar stage of life as them. Their weekly rent always stays the same even if one tenant leaves. I bare the costs of all outgoings, they aren't split between the tenants like in a traditional flatting situation. There isn't that financial risk for my tenants of being stuck with all the bills if one tenant leaves or won't pay their share. I bare the whole risk myself, that is never a problem my tenants need to worry about.
Our rooms are extremely popular and in high demand. Whenever one becomes available, it is re-tenanted usually straight away. About half of our tenants are in the process of either saving a deposit for a house or currently building. The other half are just not in a position to be buying a house right now. s 9(2)(a) [redacted] and have some tenants who just need affordable good quality healthy rental accommodation and a chance to sort their life out, pay off debt or save some money. There is not enough social housing and a number of my tenants have had bad experiences living in big old boarding houses or old converted standard houses that have had bedrooms added, having to share bathrooms with strangers and living in cold damp houses. The well thought out purpose built properties I buy have large kitchens, living areas and laundry rooms and private bathrooms for every tenant. We are proud of our properties and how well they help people in either getting into their first home or progressing them forward in a positive direction.
Our plan was to build more of these properties and we have s 9(2)(b)(ii) [redacted] already we had planned to use for deposits for more new build purpose built room by room rental properties. We have quotes from s 9(2)(b)(ii) [redacted] and were eager to begin until the government made its announcement that interest deductibility would be phased out. The problem is we have over s 9(2)(b)(ii) [redacted] so we pay large amounts of interest each year. This interest is a very real expense for our family and not being able to claim it will have a significant impact on our tax bill. The sad reality for us is that if we can't claim that interest expense we will need to change our focus from building more of these much needed properties and instead focus on paying of the mortgage debt. At least our properties are cash flow positive so we won't need to sell them but we won't be building anymore until the s 9(2)(b)(ii) [redacted] will be used to pay off mortgage rather than build new properties. We do not want to increase the rent our tenants pay as it would then make it even harder for them to save a deposit.
Our properties were bought in 2020 as new builds. If the definition of "new build" covers properties purchased in the last couple of years that were bought within 6 months of their code of compliance being issued then we would be exempt from not being able to claim interest deductibility and we can continue with our plan to help more New Zealanders get into their first home. We can build more new affordable healthy purpose built room by

room properties so more people can save up a deposit. Thank you for considering this definition.

Kind Regards,
s 9(2)(a)

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Cc: s 9(2)(a) [redacted]
Subject: Submission re : Design of the interest limitation rule and additional bright-line tests
Date: Sunday, 11 July 2021 4:41:53 PM
Attachments: Submission - Interest limitation rule - IRD 2021 07 11.pdf

---

Att:

Deputy Commissioner, Policy and Regulatory Stewardship
Inland Revenue Department
PO Box 2198
Wellington 6140

Please find attached the submission of the Taranaki Property Investors' Association Inc.

Please acknowledge receipt.

Many thanks

Regards

s 9(2)(a) [redacted]

[redacted]

[redacted]

11 July 2021

Design of the interest limitation rule and additional bright line tests
c/- Deputy Commissioner, Policy and Regulatory Stewardship
Inland Revenue Department
PO Box 2198
WELLINGTON 6140

Introduction

The Taranaki Property Investors' Association Inc (TPIA) is an incorporated society and a member association of the New Zealand Property Investors' Federation. TPIA has been in operation for over 20 years and currently has 70 memberships, representative of approx. 140 persons.

The majority of TPIA members are 'buy and hold' residential landlords, in the provision of private rental housing for the long term and who are proud to provide residential rental properties to those people seeking to rent housing.

TPIA members are resolutely opposed to the Government policies to extend the bright-line test to ten years and to disallow, for taxation purposes, deduction of interest as a legitimate business expense.

Notwithstanding the TPIA fundamental opposition to these Government policies, the TPIA makes this submission in a spirit of co-operation to assist the IRD to design regulations that are logical, fair, and readily understood by taxpayers and that will assist in facilitating the more ready availability of dwellings for first home buyers.

Executive Summary

Bright-Line Test - The rationale to tax any capital gains within two years of purchase is understood as a fair and logical argument to discourage speculative behaviour. By contrast, to impose a tax rule based on the premise that selling a property that has been owned between five and ten years is 'speculative behaviour' is somewhat fanciful, if not cynical and fundamentally dishonest. Extending the bright-line test is plainly and simply a capital gains tax (CGT) limited to one class of taxpayer, that is, the providers of residential rental accommodation.

Non-Deductibility of Interest as Business Expense

Housing affordability: Disincentivising one sector of the demand-side, that is, private landlords, from participating in the market will not of itself, reduce the upward pressure on housing prices. A continued housing shortage will not reduce the competition between potential owner-occupiers nor the upward pressure on prices of the limited housing stock for sale.

Housing supply: In the absence of strong incentives to encourage the building of new housing stock, the interest limitation and bright-line extension will be seen by developers and subsequent private landlord owners as disincentives. Developers behave differently to private rental landlords. The former do not wish to be landlords and vice versa. The unintended consequence will be very few new homes coming into the greatly undersupplied private rental pool.

Efficiency: The building of new housing stock for owner occupation or rental is a component of the 'efficient allocation of investment.' In the absence of strong incentives to encourage the building of new housing stock by the private sector, there will continue to be a housing shortage, particularly of private rental housing, an obvious unintended consequence.

Coherence of the tax system: Denying one sector of the business sector, i.e., residential landlords, the ability to claim loan interest, an expense incurred in the ordinary course of business, while allowing other sectors of the economy to be exempt, strikes at the heart of the coherence of the tax system.

Complexity of the tax system: If much of the rationale in the Government's Discussion Paper are to be relied upon, it is clear the rules will be unduly complex, and they will cause unnecessary administrative and compliance costs. The TPIA proposes a less complex approach.

Residential property subject to interest limitation: In reading Chapter 2[1] it is apparent the policy makers have a started from a position of bias, taking a punitive taxation approach to residential property investors. Little regard has been given to the stated objective of 'tilting the playing field in favour of first home buyers.[2]

[1] Design of the interest limitation rule and additional bright-line rules – Hon David Parker; June 2020

[2] Hon Grant Robertson, Policy Statement 23 March 2021.

If rulemaking to achieve the stated objective is to be authentic, two foundational questions need to be considered: 1) who are first homebuyers? and 2) what are their housing preferences? TPIA has answered these two questions.
We find much of the discussion in the Government paper about what is ‘in scope’ is misdirected or irrelevant. The primary considerations ought to be a) does the accommodation conform to the regulatory requirements for a dwelling house? and b) is ownership of the dwelling available as real property?

TPIA agrees with the conclusion arrived at in 2.11, in that if a property is not of a type available for purchase by an owner-occupier it should not be caught by non-tax deductibility provision.

TPIA defines ‘available’ as ‘i*f the accommodation or any part of it qualifies, by definition, as a dwelling, would it or the qualifying part be available for purchase as real property for use as a primary residence by an owner-occupier if it were offered for sale?’*

Having the focus on a ‘dwelling’ and its availability for purchase as ‘real property’ will obviate the need for the many exceptions/carveouts that the rule designers has so tortuously laboured to create.

Concluding Comment: Rather than taking a punitive approach to private landlords through unjust taxation laws, compelling policies are required that will incentivise developers to build, with urgency, social housing to accommodate the thousands of persons currently being accommodated in motels and other transitional and emergency facilities.

Bright-Line Test

The extension of the bright-line out to 10 years is opposed absolutely.

The introduction of the bright-line test for property sold within two years, as originally introduced is supported. The rationale to tax any capital gains within two years of purchase is understood as a fair and logical argument to discourage speculative behaviour.

To suggest that selling within two- five years of ownership is speculative behaviour is not an argument that can be reasonably sustained.

To impose a tax rule based on the premise that selling a property that has been owned between five and ten years is speculative behaviour is somewhat fanciful, if not cynical and fundamentally dishonest. Extending the bright line test is plainly and simply a capital gains tax (CGT) limited to one class of taxpayer, that is, the providers of residential rental accommodation.

The introduction of a tax on capital gain needs to be thoroughly researched, well-designed, fair, equitable, and administratively efficient. A CGT should only be introduced following robust public and political debated.

TPIA members pay tax on profits as all taxpayers are obligated to do.

Regarding rules around 'new builds' we understand that if a new build is acquired as a 'main home' (i.e., owner-occupier) it is exempt from the bright-line test. If a new build is sold by the developer to a landlord for the private rental pool, if will be subject to the bright-line test if sold within 5 years.

We concur with the overall intent of the Government policy to bias new builds toward the first-home buyer/owner-occupier market. However, the intended consequence will be very few new homes coming into the greatly undersupplied private rental pool.

Non-Deductibility of Interest as Business Expense

With reference to the Government discussion document paper *Design of the interest limitation rule and additional bright-line rules (Hon David Parker, Minister of Revenue)* the TPIA notes the following matters:

Chapter 1

1.1 *The objective is to introduce changes as fairly and simply as possible… to limit the deductibility of interest on residential investment property.*

1.2 The Government's housing objectives are to:

- Achieve safe, warm, dry, and affordable homes for every New Zealander, whether an owner or renter.
- Dampening investor demand for existing housing stock to improve affordability for first-home buyers.
- A housing and urban land market that responds credibly to population growth and changing housing preferences, that is competitive and affordable for renters and homeowners and is well-planned and well-regulated. (Our emphasis for later reference)

Under the heading of *Things to bear in mind* TPIA notes the following:

- *Housing affordability: The Government wishes to reduce the incentive and non-owner occupiers to invest in existing residential properties. This will reduce the upward pressure on housing prices. The goal is to make the purchase of residential properties more affordable for potential owner-occupiers.*

  Comment: It is well-established that New Zealand has a housing shortage. Disincentivising one sector of the demand-side, that is, private landlords, from participating in the market will not of itself, reduce the upward pressure on housing prices. A continued shortage will not reduce the competition between potential owner-occupiers nor the upward pressure on prices of the limited housing stock for sale. There may be less buyers in the market; however, the shortage is so dire and the demand so strong from potential owner-occupiers that upward pressure on prices will continue.

  Housing supply: The interest limitation and bright-line extension should not discourage new additions to the stock of housing.

  Comment: In the absence of strong incentives to encourage the building of new housing stock, the interest limitation and bright-line extension will be seen by developers and subsequent private landlords as disincentives.

  We also note developers behave differently to private rental landlords.

  Developers have a different skill set and different motivation. Developers typically need to quickly recycle their capital outlaid in a current development to reinvest into the next development. Most have no interest in being landlords. By contrast private landlords are not developers; they do not have the required skillset and have a different (lesser) appetite for risk.

  Acquiring a new build from a private developer for a private rental dwelling will have little appeal to private landlords if it is to be subject non-deductibility of interest. This will place further pressure/expectation on central government to increase the public rental pool as the number of dwellings in the private rental pool is unlikely to see new stock becoming available. The overall pool of some 536,000[3] private rental dwellings will remain static in the face of the current dire undersupply.

[3] Statistics NZ – Housing in NZ 2020; Kainga Ora – H&C – Summary of Housing Stock – 31 December 2020

Efficiency: The interest limitation should not have unintended effects on the efficient allocation of investment.

Comment: The building of new housing stock is a component of the 'efficient allocation of investment.'

The national housing stock, be it owner-occupied or rented, is a significant component of the New Zealand economy. Much is made of the asset value and that it is 'non-productive investment.' However, the economic activity associated with maintenance and improvements of the asset, which is significant at a national scale, is real and seldom acknowledged. Moreover, the economic value in the promotion of health and well-being of people being accommodated in safe, warm, and dry accommodation is rarely ascribed an economic value.

In the absence of strong incentives to encourage the building of new housing stock by the private sector, there will continue to be a housing shortage, particularly of private rental housing, an obvious unintended consequence.

Coherence of the tax system

Comment: Denying one sector of the business sector, i.e., residential landlords, the ability to claim loan interest, an expense incurred in the ordinary course of business, while allowing other sectors of the economy to be exempt, strikes at the heart of the coherence of the tax system. To exempt other accommodation providers such as rest homes, retirement villages, hotels, motel, boarding houses, and student accommodation is fundamentally inequitable and unjust. The proposal to treat businesses so inequitably, and to tax one sector on the business expense of interest while exempting others for the same business expense is not defendable on rationale grounds if 'coherence' is to be a consideration.

Complexity of the tax system: The rules should not be unduly complex so that they raise unnecessary administrative and compliance costs.

Comment: If much of the rationale in the Government's Discussion Paper are to be relied upon, it is clear the rules will be unduly complex, and they will cause unnecessary administrative and compliance costs. Further on in this submission, the TPIA will offer comment about simplifying the Government's approach.

Chapter 2 – Residential property subject to interest limitation

It is apparent that in reading this Chapter in its entirety, the policy makers have a bias, inherent in and reflective of the Government overall policy position, to take a punitive taxation approach to residential property investors. This is the unstated objective.

Little regard has been given to the stated objective of 'tilting the playing field in favour of first home buyers.[4]

If rulemaking to achieve the stated objective is to be authentic, two foundational questions need to be considered:

[4] Hon Grant Robertson, Policy Statement 23 March 2021.

1 Who are first homebuyers?

2 What are their housing preferences?

We cannot find any discussion or guidance addressing these fundamental issues in the discussion paper.

TPIA has made inquiry of several experienced residential real estate agents to obtain answers to these two questions.[5,6]

In response to the first question, we were informed that first home buyers are typically couples in their twenties or thirties, most without children, who aspire to home ownership.

As for the second question, in New Plymouth, the typical housing preference is to own freehold a standalone three-bedroom home with one or two bathrooms and a double garage on its own section.

Further, first homebuyers are rarely seeking to purchase investment property such as purchasing a multi-unit tenancy (e.g., block of 3x two-bedroom flats) to live in one and rent the others out.

In Auckland, the typical first home buyer is of a similar demographic (perhaps slightly older) to that in the provinces with the primary aspiration being that of home ownership.

However, given the affordability issue in Auckland, the first home buyer will settle for two bedrooms and located on the city fringe or more distant.

A priority for metropolitan first home buyers is at least one carpark by contrast to their provincial cousins who aspire to a double garage.

Interestingly, typical inner-city apartments in Auckland have little appeal for first home buyers. Two and three bedrooms are unaffordable and one bedrooms and studios, particularly without carparks, have no appeal. For these reasons, the recent announcement of a major trading bank to ease its lending criteria for first home buyers of inner-city apartments is unlikely to have little positive effect in the short-medium term where the primary requirement of two bedrooms and a carpark cannot be met.

The typical buyers for Auckland inner city apartments were overseas purchasers (now excluded) and private landlords. With the taxation limitation rules now under proposed, these private investors are now seen to staying away from the inner-city apartment market due to the return on investment being far less attractive.

Keeping in mind the 'who are first home buyers' question and their housing preferences we find much of the discussion in the Government paper about what is 'in scope' is misdirected or irrelevant. Whether a property is used for long-term residential accommodation or easily substitutable from short to long-term residential accommodation is not a first order consideration.

The primary considerations ought to be:

- **Does the accommodation conform to the regulatory requirements for a dwelling house?**

[5] Pers comm 1 July 2021 – C Comber TPIA to New Plymouth salespersons L Girvan, LRES and G Green LRES

[6] Pers comm 6 July 2021 – C Comber TPIA to Auckland salesperson K Samuel, LRES.

The starting position can be the ITA citing the definitions of 'Residential Land' and 'Dwelling' (Para 2.18) and if necessary, supported by the definitions of 'household unit' (Building Act 2004), and 'dwelling unit' (Housing improvement Regulations 1947).

- **Is ownership of the dwelling available as real property?**

Real property is by definition considered to be land and buildings. It may be freehold or leasehold. It can also be a building without land such as an apartment dwelling in a multi-unit building with ownership secured by way of stratum title.

In commenting on Para 2.10, given the above considerations, hotels, motels, boarding houses, and multi-units of any type are not the preference of first home buyers nor are they typically available to purchase as first homes, unless individual title is available for a self-contained dwelling unit with such structures.

We agree with the conclusion arrived at in 2.11, in that if a property is not of a type available for purchase by an owner-occupier it should not be caught by non-tax deductibility provision.

We do not concur with the 'easily convertible' qualification, because 'easily convertible' is not defined. Is 'easily convertible' to do with the conversion of a building to a compliant dwelling or is it to do with the conversion of land tenure so that a dwelling can be purchased as real property? This ambiguity will be complex to administer and uncertain in enforcement. The notion of 'easily convertible' should be discarded.

Regarding 'relevant factors' the para. 2.12 to guide decision-making our comments are as follows:

Regulatory framework and population:

We do not see how considering the regulatory framework applying to the tenure of a particular accommodation building or the population it serves is relevant to the primary objective of titling the playing field toward first home buyers. The reference to the RTA underscores our concerns about the bias inherent in the discussion paper to set out to put in place punitive taxation measures for private landlords.

Physical structure and configuration:

We agree that this is relevant criteria – or put more simply, and in reliance on statutory definitions as discussed above, is the building a dwelling unit, or if a multi-unit, is the building comprised of one or more dwelling units?

Unconditional occupation:

This notion is somewhat off the point. The consideration should be ownership of a dwelling as real property. This relevant factor could be re-written as:

'Ownership as real property - Can a person purchase and occupy the dwelling as real property?'

Incentive for and barriers to conversion

Identifying 'barriers to conversion' as a relevant factor for consideration immediately places the matter in a subjective or qualitive frame, particularly when a phrase such as 'with relative ease' is used.

If the primary objective of making dwellings more readily available for first home buyers is kept in mind, giving consideration to whether or not a multi-unit building comprised of dwellings can be converted to individual ownership is somewhat fanciful. This approach will catch many motels and most 'Quest' type accommodations where the configurations are able to qualify, by definition, as self-contained dwellings.

Whether or not a property <u>can be converted</u> to individually titled dwellings as real property is a test to be avoided as it will add significant complexity and cost to the administration of the proposed taxation regime. Potential conversion does not equate to availability and may never occur.

Keeping to the 'fair and simple' approach, the test should be whether or not a dwelling, if offered for sale, is available for purchase as real property for use as a primary residence.

We suggest this relevant factor should be reworded to read:

'Available – If the accommodation qualifies, by definition, as a dwelling, would it be available for purchase as real property for use as a primary residence by an owner-occupier if it were offered for sale?'

We have reviewed the discussion across para's 2.13 to 2.45 and offer the following table as an illustration as to how a regime might be applied keeping in mind the primary objective of assisting first-home buyers more readily into the home ownership while at the same time adopting a 'simple and fair' approach for taxpayers. For administrative simplicity, we are of the view 'carveouts' or exceptions should be, and can be, kept to a minimum.

Type	*Available?	Subject to Limitation (non-tax deductibility)	Comment
Standalone rental dwelling on freehold or lease hold title	Yes	Yes	Short or long-stay
Rental flat in a multi-unit block each being on a separate unit (e.g., cross lease, strata title etc)	Yes	Yes	Short or long-stay
Rental flat in a multi-unit block where the building is on a on a single land title (i.e., individual flats are not unit tilted.	No	No	The individual flats are unable to be purchased as standalone dwellings under the existing title.
Care facilities including hospitals, convalescent homes, nursing homes and hospices.	No	No	Typically, the individual accommodations (rooms) do not meet the definition of dwelling.
Commercial accommodation	No	No	Typically, the individual

including hotels, motels, motor inns hostels, boarding houses, and camping grounds			accommodations (rooms) do not meet the definition of dwelling. Where they do, they would likely not be available as individual ownership title is not available.
Serviced apartments	Maybe	Maybe	An exception would be where the serviced apartments are unit titled and could be sold off as individual dwellings. Conversion of standard residential apartments to serviced apartments is 'zero sum' as to the overall rented accommodation supply.
Retirement villages and rest-homes	No	No	While the tenure is usually licence to occupy (real property) the self-contained accommodations are the primary residence of the occupant/s.
Income derived from main home the rented accommodation is a standalone residence on the land title of the main residence.	No	No	If the rented accommodation is a standalone residence on the land title of the main residence.
Income derived from main home where the rented accommodation is a standalone residence on a separate land title.	Yes	Yes	
Employee accommodation where located on the land title of the business (i.e., cannot be sold off without land subdivision).	No	No	Examples would be farm worker accommodation located on the farmland title, or caretaker accommodation within an urban business premises.

Employee accommodation where located on a separate land title to the business (i.e., could be sold off without land subdivision).	Maybe	Maybe	Subject to proof that that the accommodation is being used for employee accommodation.
Business premises and dual-purpose building on the same title	No	No	
Student accommodation	No	No	Student accommodation is typically in a multi-unit setting, of a configuration that does not comply as a self-contained dwelling and usually on a single land title.

**Available means: If the accommodation or any part of it qualifies, by definition, as a dwelling, would it or the qualifying part, be available for purchase as real property for use as a primary residence by an owner-occupier if it were offered for sale?'*

Concluding Comments

The TPIA supports the Government's objective of facilitating the more ready availability of dwellings for first home buyers.

In achieving its objective, the Government and its officials need to develop clarity around who are first home buyers and what they aspire to.

The TPIA has endeavoured to provide clarity as to these fundamental questions of the 'who' and the 'what'.

Understanding the demographic of who is endeavouring to be assisted and their housing preferences together with a focus on housing typology and land tenure will lead to the desired 'fair and simple' tax regime proposed being developed.

The TPIA remains opposed to the inequitable tax treatment that the Governments policies will bring about.

The TPIA members are committed to providing safe, warm, and dry accommodation for tenants and in the knowledge that private landlords are providing more than 90 percent of the rental accommodation in New Zealand.

Rather than being part of the problem of the housing shortage in New Zealand (as perceived by the Government) private landlords are a part of the solution.

Our best advice to the Government is rather than taking a punitive approach to private landlords through unjust taxation laws, compelling policies are required that will incentivise developers to build, with urgency, social housing to accommodate the thousands of persons currently being accommodated in motels and other transitional and emergency facilities.

This submission is lodged by Taranaki Property Investor's Association Inc.

11 July 2021

s 9(2)(a) [redacted]

PUB-0273

From: s 9(2)(a)
To: Policy Webmaster
Cc: s9(2)(a)
Subject: Design of the interest limitation rule and additional bright line rules
Date: Sunday, 11 July 2021 4:52:42 PM

To whom it may concern,

I am writing regarding the changes in interest deductibility laws for investment properties.

I have s 9(2)(a). These properties will create a loss for me once the new laws start. I currently maintain these to a high standard, including exceeding the healthy homes standards e.g. installing a shower dome. I am concerned that with the proposed tax changes I will no longer be able to maintain and upgrade the properties as I would like to. This will have a negative impact on tenants. I expect there will be many landlords in the same position as myself.

These properties will not help the government create more available properties for first home buyers as they are rented to students and city workers not families who want to buy. If I have to sell it will likely be to another investor who is more cash ready than me. I have always considered these purchases to be run as a business and they should be taxed as a business. I even have a business manager at the bank for these properties accounts.

Thankyou for considering my submission.

s 9(2)(a)

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 4:56:42 PM

To whom it may concern,

We are responsible landlords who have chosen to invest in only new builds in order to help with the current NZ housing crisis rather than add to it. We provide excellent housing to tenants providing warm, clean and healthy homes. We are quick to respond to any issues/repairs etc required.

The proposed policy changes will make it harder for us to afford repairs and maintenance. We already have to top up the property costs from our own personal incomes. We may need to look at increasing rents, taking properties off the rental market or selling. These changes may also cause delays to future investment in new house builds and our retirement plans.

We do not consent to being contacted by an official regarding this submission or to provide further information.

Your sincerely,

s 9(2)(a)

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 4:56:58 PM

Dear Sir /Madam

My submissions are:

1. That the government should not abolish interest deductibility at all. As interest rates start rising, this is going to have a really devastating effect on many families around the country and then a devastating impact on house prices. A lot of the options like ring fencing will only just be biting for some people. Why don't you spend some time ensuring stronger compliance around recouping tax on sales instead. I cannot believe that the government has not collected enough tax in the past few years from people selling inside the 5 year bright line test and wonder whether it just isn't policing this?

2. That the government starts looking more seriously at providing for people in their old age in New Zealand, by encouraging further contributions to Kiwisaver. Investment on the stock exchange or through managed investment in New Zealand companies is too unreliable - Kiwi companies are too small on the world stage to provide a reliable return on investment. We have tried to do what the government wanted in the past - which was for us all to start companies and invest in small business but there was no government assistance in this and it was a terrible financial disaster for us. The only really reliable and accessible way of saving for retirement has been in property investment. Please do not punish investors who have based their retirement plan on being able to buy, care for, and rent out residential investment properties.

3. Please can you look further than institutional providers of student accommodation in close proximity to universities. The exemption proposed for student accommodation providers unfairly skewed towards government providers or government contracted providers. Halls are exceedingly expensive and in Wellington, our personal experience was that the student halls were substandard, smelling of damp, and cold, even before students moved in at the start of the year with no plans to identify or remediate the cause. The competition even without international students in the country for liveable s 9(2)(a) was so great that we felt there was no other choice to purchase a flat for our s 9(2)(a) to occupy while at university. We have upgraded the bathroom and repaired leaks, replaced the carpet and every appliance (including heating) in the apartment, and provided good quality new furniture. This is in minutes of both campuses and there is no allocated parking at the apartment. It was extremely expensive but unlikely to be used for a home for a family, it is really student accommodation. The situation is so dire in s 9(2)(a) in terms of mould and damp and leaking and ventilation, according to our family member there. Surely if you must take away interest deductibility in this situation there would be some incentive to provide decent student accommodation privately within a radius of the university (especially when outside significant school zones). If you are excluding government halls of residence from the rules, given that is always oversubscribed, why not extend the same incentives to student accommodation providers within a radius of universities?

4. That the rule surrounding ring fencing of losses on property returns should be abolished if you are also introducing abolition of interest deductions. Together these are too onerous on mum and dad investors who have no real way of making a decent living in new zealand or to save for their retirement given the small nature of our economy, and the fact that government taxes overseas investment so heavily (5% of portfolio whether you realise it or not). Our wages are too low, our tax brackets are ridiculously low, and it seems the only way high wages are earned is through family ownership of major businesses, or pooling both parents working wages and kids working wages together over time. When we have such an unproductive economy then to do anything both parents need to work, and this more than anything leads to breakdown in family units.

5. Of course there should be an opportunity to recoup interest payments on sale, if you really must kill off the only reliable and accessible New Zealand investment plan. I don't think a lot of would be investors have a full handle of quite what an impact the abolition of interest deductibility is going to have.

6. Perhaps the interest deductibility rule could be applied only where there are real issues with housing affordability - eg south Auckland, and other parts of the North Island. We don't have the same issue down in s 9(2)(a)

7. I see you are making some changes to rules around re-setting of bright line test when transfer of properties amongst related entities happens. Please extend this to related entities other than just trusts. People would benefit from the use of trusts, companies and individual ownerships at different ages and stages of their lives. If they are not transferring ownership in substance, it seems harsh to reset the bright line test on every occasion. We are finding elderly clients wanting to re-settle trusts into new trusts compliant with the Trustee Act 2019 and others finding the cost of compliance with tax and trust law now too oppressive at a time when they no longer have a great deal of income, and wanting to convert the assets back into their own names. Younger people might set up their property investments into companies, and as they get older find a trust vehicle might be safer. While more or less the same parties are involved, this seems unfair and unduly harsh to reset the bright line test when a property has been held in substance with the same people for decades.

8. Really, why didn’t you just introduce a broad capital gains tax. This is all just silly and complicated and punitive (especially outside the areas of NZ that are not as economically driven as Auckland), and unlikely to achieve your aims in any event.

I’m happy if you want to contact me.

s 9(2)(a)

From:	s 9(2)(a) [redacted]
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Sunday, 11 July 2021 5:23:35 PM

"Design of the interest limitation rule and additional bright-line rules"

Dear committee
A friend had a theory that altering the oil pressure to his car motor would alter it's speed. Yes it would, but what a stupid way to control a car.

Clause 1.3 of the discussion document says "New Zealand has a long-standing housing affordability problem." So how does the adding of a tax (as in removing interest as a tax deductable item) into the middle of the residential rental industry, going to help? Sorry but the reasoning is along the lines of the above parable.

Question. Why is your concern of the cost of housing (including new build) such that you need to double or triple the tax due, hitting both client and supplier in the residential housing business?
The big issue with this proposed "interest limitation", is not that it is an increase of tax-on-profit, but the expectation for property investors to pay tax, IRRESPECTIVE WHETHER THEY HAVE MADE A PROFIT OR NOT.

So, for the many newer people investing their life's savings in a rental as a nest egg for their retirement, and putting a roof over someone's head. Where they have little or no cash flow in the initial years. Please explain just how they are supposed to pay it.

Sorry, this is extortion. The whole premise of taxing this way must be reviewed.

s 9(2)(a) [redacted]

I may be contacted on my submission should you wish to.

From:	s 9(2)(a) [redacted]
To:	Policy Webmaster
Subject:	Submission
Date:	Sunday, 11 July 2021 5:54:51 PM

Please find the below my submission. Any questions please ask.

s 9(2)(a) [redacted]

- Implementation date:

  01/10/2021 date does not make any key reasons for two reasons:

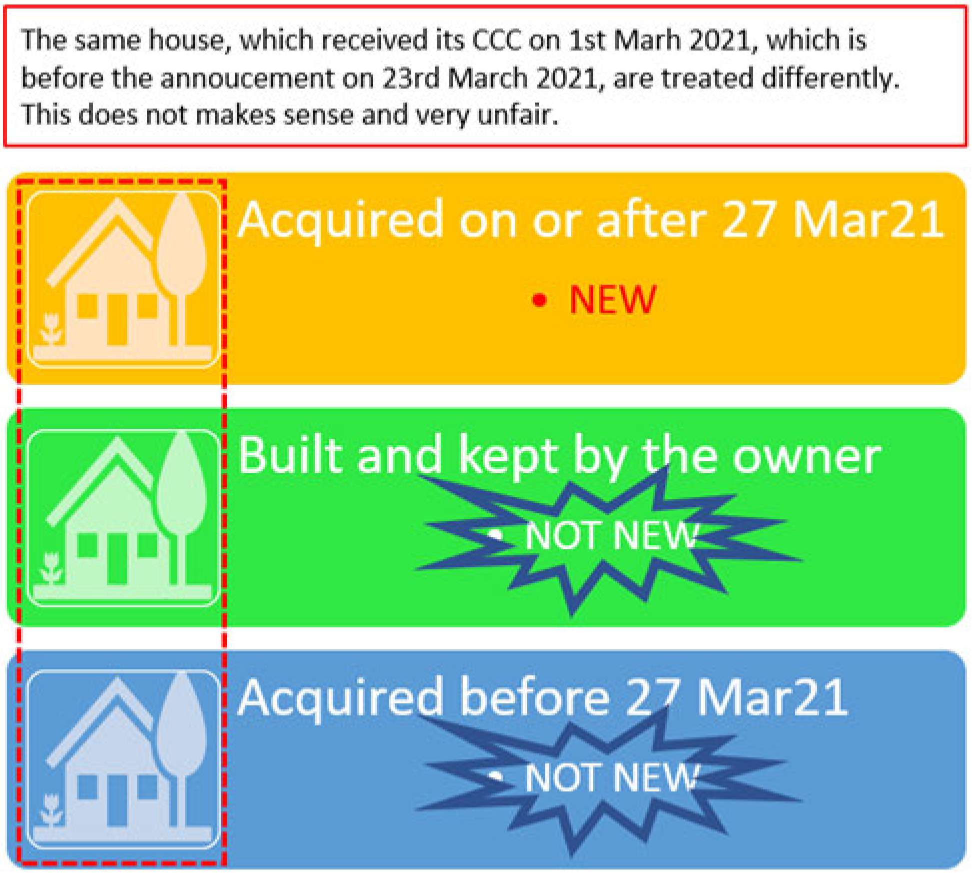
  1: the actual rules and regulation are not set yet and it is expected to be finalised by Oct21. It does not give any party (including systems) any time to digest and comply with the new regulation. As the changes are significant, it would take significant amount of work to make sure the rules are being understood and comply properly.

  2: It is in the mid of the Financial Reporting year and it makes harder for accountants and home owners to file their returns. It would make IRD job harder as well for administering, monitoring and compliance point of view.

  The recommended effective go live date is **01 April 2022**.

- The treatment of new builds under the bright-line test and changes to interest deductibility

  - Transition rule is too confusing and does not cover all situations where a house was build recently and CCC issued before 27 March 2021. Keep it simple. A house is a new build when it is newly build and should not be treated any differently. Hope the below diagram explains what I mean and make sense to you.



New build exemption proposals

- We believe **Option 2** will have the best outcome for both early owners and subsequent owners.

- Should interest deductions be allowed when property is sold?

  - We believe it is fair and reasonable that the **Interest can be deducted when the property is sold**.

- Changes to the bright-line test

  - Agree with new build bright-line test being 5 years to create incentive for new building supply
  - Agree with technical changes of ownership should not affect the bright-line test as legal owners are effectively the same

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 6:07:03 PM

Thank you for the opportunity to comment on the government's proposed tax changes concerning the taxation of investment / rental properties.

We would like to raise our concerns about the definition of a 'new build'.

In particular, the proposal states that a new build is a property that has had its Code of Compliance Certificate (CCC) issued *after* 27 March 21.

In our view this definition is too narrow and arbitrary. It would materially disadvantage owners of newly built rental property who have, in good faith, bought *new* builds *off the plans* (turn-key builds) in the past few years. By nature there is a long lead time for these turn-key builds between when the purchaser enters into a legally binding contract with the developer and eventual settlement. Linking the definition of a new build to the date of issue of the CCC and using this arbitrary date as the key driver for determining what will be considered a new build is not logical and is significantly detrimental to the purchasers of these newly built properties, where the CCC was issued prior to 27 March 2021.

A more logical and fair way of defining a new build would be to link it directly to the age of the building (for example 20 years from the date of the CCC), irrespective of when the CCC was issued. A building built 5 years ago, before the proposed change to the tax laws, is no older than a building built on or after 27 March 2021 will be in 5 years' time and as such should enjoy the same tax treatment until the underlying building itself is say 20 years old. Failure to change the definition of a 'new build' accordingly will essentially be a retrospective change in tax legislation.

If the proposed definition stands, then the loss of deductibility of mortgage interest will affect rental property owners (of these newly built homes) very negatively in terms of cash flow.

It would certainly preclude them from buying any new builds in the future to add to New Zealand's housing stock of affordable, compliant, rental accommodation. This is aside from issues of fairness – for example, a property which received its CCC a *few days* before 27 March. It's hard to see how, in this example, property bought from the developer *off the plans*, would not constitute a 'new build' (with its healthy homes certification) *just because the CCC was issued a few days before 27 March 2021*.

Another effect of these proposed changes on rental property investors in new, but pre 27 March 21 CCC issued properties, is that they could well be forced to sell once the deductibility of interest is removed. Many have planned their finances based on the *basic* tax principle of deductibility of expenses incurred in the production of assessable income. Rental property owners will also need to recoup the extra financial burden imposed by the loss of interest deductibility. The effect of this on current tenants (many of whom *cannot* afford to buy a property), will be:

- Rental increases

- Being forced to find alternative accommodation to rent in a shrinking rental market - as many rental property owners will have sold to owner occupiers – often with fewer people per property as a result.

Finally, the inherent lack of certainty introduced into the market by these proposals, especially in regard to new builds, will make future buyers of properties off the plans for investment / rental purposes much more cautious about investing in New Zealand's potential stock of new, healthy rental homes. This would be contrary to the idea of enabling a ready supply of new, compliant rental accommodation.

Anecdotally, a *material number* of purchasers of new builds *are investors* in rental accommodation, not first home / owner occupier buyers. Shrinking the pool of possible *types* of purchasers (owner occupiers <u>and</u> investors) is likely to act as a disincentive to developers.

Regards

s 9(2)(a)

PUB-0279

From:	s 9(2)(a) [redacted]
To:	Policy Webmaster
Subject:	[SUSPECT SPAM]Design of the Interest Limitation Rule and additional Bright-line rules
Date:	Sunday, 11 July 2021 6:10:05 PM

Thanks for the opportunity to comment. My response is in the form of bullet points, as I'm sure you will have enough waffle to work through on this project. Feel free to contact me s 9(2)(a) [redacted] if further discussion is required.

- It would be useful if the Commissioner of Inland Revenue could have discretion to allow exemption from Bright Line rules in special circumstances such as where a sale is forced due to hardship or family need
- It may be hard to define community housing projects, but I think they should be excluded from the interest limitation rules. The ones I have seen are run by charities or churches, and mostly aim to break even while providing safe housing for the less fortunate or able members of the community.
- The rules, as they stand, provide a huge barrier for parents helping children onto the housing ladder. It may be necessary to loosen the rules around the family home exemption, if the government thinks this kind of family help is desirable.
- Dual purpose properties (1): apportionment is by far superior to an "all or nothing" approach
- Dual purpose properties (2): as an alternative to floor area, perhaps rental return could be used to determine which is predominant. For example, the commercial part of the property might return say $300pw rent, but the residential part returns $225 pw. You could then argue that the commercial use is predominant

- The objective of these rules seems to be to allow potential home owners more opportunities and a larger share of the housing market by actively discouraging investors and landlords. This, as I see it, is dividing the housing market by determining who gets the larger slice of the pie. What if we could make it a larger pie to share around? This might be encouraged by
    - Extending the interest deductibility and Bright Line rules to commercial properties. This would discourage commercial property New Builds, meaning more resources (timber and tradies in particular) available for residential builds
    - Resourcing local councils better so that resource consents and building approvals can be issued in a more timely manner
    - Finding a way to incentivise the construction of a larger number of smaller properties (as opposed to a smaller number of large builds) – perhaps by reducing council contribution and charges for houses under 100m^2 floor area
    - Providing a huge amount more clarity around the rules for tiny homes

- Accommodation for employees is supposed to be exempted. Perhaps kill two birds with one stone (encouraging employer compliance while providing a clear definition) by defining employee accommodation as being any accommodation that is correctly treated as income, with PAYE deducted from the value of the rent.
- Life would be easier if the interest deductibility and bright line rules could rely on the same definitions and exceptions.
- The more tricky the rules are, the more likely that good honest taxpayers will misunderstand and accidentally disobey the rules.

- There seems to be an intention to have a carve-out for student accommodation. Has any thought been given to the tax treatment of boarding schools?

- Air BnB is evil. It damages the hotel industry and also reduces the number of houses available for rent or for ownership. Perhaps some of these should be caught by the interest rules. I would suggest that a turnover basis would be fair. Any Air BnB or similar short term rental entity that generates enough income to be GST registered should be subject to the restriction of interest deductibility.

- Maori land and Papakainga housing have me confused. If Maori land cannot be bought or sold, it seems unlikely that there would be much debt (and therefore interest expense) related to the purchase of land. The housing side of things would most likely be already exempted because of the new build exemption. But I can see the political advantage of specifically excluding this type of housing from the rules.

- 4.3 says that the vast majority of taxpayers owning residential investment properties are not companies. I haven't found that to be true. From our database of clients, it seems that about 70% are not companies. That is a majority, to be sure, but not a vast majority.

- Having said that, the tracing approach will in general probably reach a fair result.

- 4.8 suggests that tax payers "will often take care to ensure" that the borrowing can be traced to the purpose. It might be worth educating mortgage brokers about these rules. They (and sometimes lawyers) are more that just occasionally unaware of the need to trace the purposes of a loan, and have been known to arrange borrowings that are not in the appropriate entity, or that muddle business and non-business usage.

- I do like the clarity of example 8. Haven't seen it expressed so clearly in the income tax act, despite desperately hunting for something very clear so that I can present it to a client ("because I said so" doesn't work so well, I have to admit).

- Before I read paragraphs 4.11 and 4.12, I had written a note that said: It might be worth clarifying the rules around revolving credit facilities, as these can be messy. I still think this is a good idea, despite your comment that it is not a priority for this reform.

- Does the interpretation need to choose between apportionment and stacking? Why not offer both options and let the taxpayer choose for themselves. As you say, it is just a one-ff exercise, and therefore having to choose would not be too onerous.

- For the sake of simplicity, cost is definitely easiest. Could stacking (rather than apportionment) based on cost be permitted?

- Determining market value can be costly and complex. Perhaps using government valuations (instead of independent valuations) for <u>all</u> property could be permitted. I think for this it would have to be an "All or None" approach, not mix and match. Otherwise there would be a temptation to use a recent registered valuation for commercial property and slightly older and lower government valuations for residential rental property.

- My feeling is that offset arrangements are not the same as flexible credit facilities. It is possible to apply tracing rules to loans. If the taxpayer chooses to reduce the interest cost by using an offset facility, that won't change the history of the loan itself. It seems better to leave these loans alone, without any special rules.

Thanks for the opportunity to contribute.

Yours sincerely

s 9(2)(a)

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the Interest limitation Rule and additional brite-line rules
Date: Sunday, 11 July 2021 6:21:26 PM

I wish to make a submission re the proposal to dis-allow deductibility of interest re rental housing.

It is a basic tax law that any cost necessarily incurred in producing an assessable income is deductible against that income.

If a person was to buy an apartment to rent to ease the rental housing shortage the interest on the mortgage is a cost necessarily incurred to produce the assessable income (rent)

As an example:
Apartment cost $600,000
Deposit $200,000
Mortgage $400,000
Interest rate 2.5%
Rent $800 per week
Bodycorp fees $6,000
Rates $2,000
Agency fees $3,000

Rental income		41,600
Bodycorp fees	6,000	
Agency fees	3,000	
Rates	2,000	
Profit before interest		30,600
Interest		10,000
Profit after interest		20,600

If the interest is not deductible then the owner pays tax (at 28%) of $8,568
If interest is deductible tax is $5,768
Extra tax due to non deductible interest $2,800.

Apartments tend to have a higher rental return (on cost) than houses, but do not experience the value increases of a house..
An investor wanting a higher income choses to rent an apartment rather than a house.
He has a higher income, but little capital gain.
If he is punished by this proposed non deductibility of interest, there is little reward.
Why should he invest in this segment?

There is a shortage of good rental stock.
This proposed tax change will increase that shortage.

The other matter is identifying what borrowings relate to a rental property.
If an investor has multiple investments as well as housing, and has borrowings, what can the basis be to ascertain if all, some, or none of the borrowing relates to housing?
It seems this proposal will open up opportunities for tax advisors to be required which will further punish the rental house provider.

It is proposed that new builds be exempt.
Why should they be?

That would further fuel the artificial demand for new over existing.
Many property investors cannot afford to buy a new property to rent it out. The return is too low, as there is a higher cost to achieve the same return.
This exemption would be to the advantage of the more wealthy investor, who can afford to sit on a new build for 5 years (less than 10 years for non- new), pay little tax as the interest will offset the rent then pick up a tidy tax free capital gain.
One rule for the rich, and another for everyone else???

I believe this proposal is unsound as it goes against the basis of taxation of NET PROFITS rather than GROSS INCOME.

Leave the law as it stands.

regards
s 9(2)(a) [redacted]

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Rental Interest Deductibility
Date: Sunday, 11 July 2021 6:38:34 PM

To whom it may concern

New Zealand has always had a policy whereby interest costs relating to a business expense has been deductible from annual taxation payments.

I have two issues with this change in policy being proposed:

1. A) Tenant will wear the cost of this loss of deduction as landlords will increase the rental charge to cover the cost.
   B) It marginalizes many families who are unable to own their own home, making their housing costs much higher and putting them at a greater disadvantage.
   C) Many families will not be able to find housing as the costs will be too high.

.

2. A) To implement a policy that does not allow one sector i.e the business of renting homes to be excluded from deducting the cost of interest is a very worrying precedent.
   B) What industry will be the next one to not be able to deduct interest costs.
   C) It will stop new companies starting up as the parameters of compliance are likely to change without warning creating less employment..

I strong ask that the Government reconsider any changes to the interest deductibility of rental homes.

Regards
s 9(2)(a) [redacted]

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 6:44:07 PM

I oppose the removal of interest deduct-ability and any extension of the bright line test. This is nothing more than revenue collecting by the government and a cult of envy attacking successful people.

s 9(2)(a)

Sent from my iPhone

PUB-0283

From:	s 9(2)(a) [redacted]
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Sunday, 11 July 2021 6:50:15 PM

Kia ora koutou,

I would like to make a submission to the document discussing the interest limitations.

Background

- I have been a provider of rental accommodation for university students for **over 10 years**.
- Over that time I have acquired s 9(2)(a) [redacted] and **improved them** to ensure that my tenants have warm and modern flats.
- Only rarely do tenants stay for longer than a **year**.
- Group sizes vary between s 9(2)(a) [redacted]
- I was able to keep **rents below the market level** for the last five years.
- The feedback we get from the students is that the **flatting experience** is part of their university life, and it teaches them some valuable **life skills**, such as budgeting, taking responsibility for their surroundings and looking after their flat.

Suggestion to allow providers of private student rentals to deduct their interest

1. If landlords who provide rentals for students won't be able to deduct their interest, it is inevitable that they will be **raising the rents**.
2. This will hit the students pretty hard, as they will **struggle to finance** their living away from home.
3. In turn, they may be applying for a **StudyLink accommodation subsidy**, which will hit the government in return.

Student rentals will unlikely be offered to the general rental market

1. There is a **niche group** of landlords who provide rental accommodation for students only, and they will unlikely make these rentals available to the general rental market.
2. Usually a (student) flat will house **more people in the same dwelling** compared to a standard family, providing more housing in line with the **government's intention**.

Less incentives to improve properties due to lack of cash-flow

1. If landlords who provide student rentals are hit by the interest non-deductibility, they will have **no cash flow** to invest into improving and maintaining the properties, resulting in a **much worse experience** for student tenants.
2. **Renovations are not tax-deductible**, so not being able to deduct interest is going to create a dis-incentive for landlords to improve and modernise their properties.

Enforcing the exemption

1. It should be quite **easy to enforce** the exemption for landlords who provide accommodation for students or several flatmates.
2. It can be proven by supplying a tenancy agreement with **multiple tenants**' names on it, as well as confirming that they are students (**student IDs** should be sufficient).

Based on these facts, I believe that all landlords who provide student rentals (and not

just those who rent out boarding houses room-by-room) or rent a property out to a large group should be excluded from the interest non-deductibility.

I'm happy to be contacted by IRD to discuss the points I made above.
s 9(2)(a) [redacted]
--
Ngā mihi nui,
s 9(2)(a) [redacted]

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 7:41:23 PM
Attachments: ATT00001.png
090721 PCNZ Submission on ID consultation.pdf

Good evening

On behalf of Property Council New Zealand, please find attached a copy of our submission regarding the design of the interest limitation rule and additional bright-line rules.

Please do not hesitate to contact me if you have any questions or require any further clarification from us. Our intention is to provide some additional supplementary information as it becomes available to us.

Kind regards

s 9(2)(a) [redacted]

[redacted]

PROPERTY COUNCIL NEW ZEALAND

s 9(2)(a) [redacted] | www.propertynz.co.nz

Level 4 (Foyer Level)
51 Shortland Street, Auckland 1010
PO Box 1033, Auckland 1140

Property Council New Zealand

Property Council New Zealand

Submission on the Government discussion document on the design of the interest limitation rule and additional bright-line rules

9 July 2021

For more information and further queries, please contact
s 9(2)(a) [redacted]

Property Council New Zealand
Foyer Level, 51 Shortland Street
PO Box 1033, Auckland 1140
09 373 3086
propertynz.co.nz

Government's discussion document on the design of the of the interest limitation rule and additional bright-line rules

1. Recommendation summary

1.1 Property Council New Zealand (Property Council) does not support the proposed changes to the interest deductibility rules as set out in the Government's consultation document regarding the design of interest limitation rule and additional bright-line rules. Our position is that the Government should not progress these changes and should instead consider other mechanisms by which to reduce demand and increase supply in the housing market.

1.2 In the alternative, if the Government does choose to progress these changes, Property Council makes the following recommendations:

- The Government specifically exempt Build-to-Rent developments, and create an asset class that considers Build-to-Rent as a commercial asset rather than residential;
- Progress other changes of barriers to unleashing Build-to-Rent;
- Adopt the apportionment approach to ascertain purpose for dual purpose properties;
- Legislate a carve out for purpose-built student accommodation and for serviced apartments;
- Initial owners of new builds be given an exemption in perpetuity, and subsequent owners of new builds be given either an exemption in perpetuity or a 50 year fixed term exemption;
- Reduce the bright-line test to five years for new builds for as long as they are able to claim interest deductibility;
- All denied interest should be deductible at the time of sale where property is held on revenue account;
- Developers be exempt, and remediation be included generally under the exemption;
- Extend the application date of the new rules to 1 April 2022.

2. Introduction

2.1 Property Council welcomes the opportunity to submit on the Government's consultation document regarding the design of interest limitation rule and additional bright-line rules.

2.2 Property Council's purpose is "Together, shaping cities where communities thrive". We believe in the creation and retention of well-designed, functional and sustainable built environments which contribute to New Zealand's overall prosperity. We support legislation that provides a framework to enhance economic growth, development, liveability and growing communities.

2.3 Property is currently New Zealand's largest industry with a direct contribution to GDP of $29.8 billion (13 per cent). The property sector is a foundation of New Zealand's economy and caters for growth by developing, building and owning all types of property.

2.4 Property Council is the leading not-for-profit advocate for New Zealand's largest industry- property. Connecting people from throughout the country and across all property disciplines is what makes our organisation unique. We connect over 10,000 property professionals, championing the interests of over 600 member companies have a collective $50 billion investment in New Zealand property.

3. Overview

3.1 Property Council does not support the proposed design of the interest deductibility limitation rule or the changes to the bright-line rules for residential land . Our view is that changes to interest deductibility will reduce supply and put pressure on developers and landlords. Extra costs on landlords may lead to fewer rentals being available, and reducing incentives for developers to build new houses may lead to fewer affordable houses for New Zealanders.

3.2 It is also out of step with other international jurisdictions who similarly battle with housing affordability challenges.

3.3 Emerging asset classes like Build-to-Rent are at risk of being deemed unviable by domestic developers due to these changes.

4. Build-to-Rent

4.1 Property Council recommends a specific carve out for Build-to-Rent (BTR) developments that would ensure certainty to developers and future owners have certainty. For clarity, Property Council defines Build-to-Rent as an asset specifically designed, constructed or adapted for long-term residential tenancies, accommodation comprised of a portfolio of minimum 50 self-contained dwellings and include some form of shared amenity, dwellings let separately but held in unified ownership and dedicated to residential tenancies for at minimum eight years, and professional and qualified management, with oversight under a single entity. We will continue to work with the Government on any definitional issues that may arise.

4.2 Property Council has been working constructively with the Ministry of Housing and Urban Development and others in a BTR reference group to help unleash its full potential. Our view is that Build-to-Rent is more akin to a commercial asset or like student accommodation and retirement villages. This matches up with other international jurisdictions we compare ourselves to. We have attached our briefing paper to Hon Megan Woods regarding BTR and its potential effects on New Zealand's housing market for your information.

4.3 As part of that work, recognising institutional barriers within New Zealand's tax and broader regulatory settings and helping identify solutions to them has been core to the success of the group so far. The activation of BTR will be a critical enabler to accelerate the supply and delivery of affordable housing across New Zealand – both affordable rental and affordable owner-occupier homes. It has the potential of being one of the largest contributors to new accommodation supply in New Zealand.

4.4 BTR does not compete with the secondary re-sale housing market in the first home buyers/affordable space. BTR is supplementary on the housing continuum that supports different needs and requirements. In terms of supply, BTR generally does not compete with the same land residential developments are. Most BTR developments are built on metropolitan and business mixed use and due to the nature of BTR. BTR is viable because of its access to other commercial and retail spaces close to town centres which don't exist in predominantly residential areas. In both of these regards, BTR does not fit neatly in with the traditional residential asset class. If BTR is not exempt then it is not participating on a level playing field with other commercial uses who are competing for similar metropolitan and business mixed use zoned land.

4.5 If BTR is not recognised as a specific asset class, and is not explicitly exempt in perpetuity from the proposed interest deductibility changes, it is our view that BTR will not be feasible to grow and operate in New Zealand. This applies to all BTR products, both affordable and market ends.

4.6 We note that the consultation document proposes that new builds be exempt from the changes. However, internationally the reality is the new build market is driven in part by the success and development of the secondary re-sale market. It is our submission that they cannot be separated and the Government must support both in order to create a viable sector.

4.7 To many investors, New Zealand is seen as out of step with international best practice and impeded in our ability to attract capital and expertise to build and develop at scale and pace. This further diminishes that, and puts at risk the Government and private industry's ability to add supply across New Zealand and help fix New Zealand's housing crisis.

4.8 In our submission on the Overseas Investment Amendment Bill (No. 3), we recommended that the Government introduce an exemption and create a new asset class to allow foreign capital investment into New Zealand to specifically support BTR developments like is allowed for retirement villages and student accommodation. We further recommend the Government progress this work as a matter of urgency alongside their consultation on the proposed changes to interest deductibility rules.

5. Properties caught by the proposed rules

5.1 If the Government chooses to progress their proposed changes, Property Council recommends the following:

(a) That an apportionment approach be used to ascertain purpose for dual purpose properties, as opposed to a predominant use approach;
(b) That a carve out be created for purpose-built student accommodation; and
(c) That a carve out be created for serviced apartments

Apportionment versus predominant use

5.2 Property Council recommends using an apportionment approach when determining the tax treatment of dual purpose properties. Apportionment is a fairer, more accurate way of determining usage we believe an apportionment calculation allowing for interest deductions in relation to the business premises of a dual-purpose building is preferable over the all or-nothing approach.

5.3 Equally, we agree with the Government's position that the current rules regarding apportionment, which generally focus on time and space, should be used over developing new and potentially more complex and burdensome ones.

5.4 Using a predominant use approach likely leads to an "all or nothing" outcome, where there is the potential for mischaracterisation of usage to avoid particular tax treatment. Our tax settings should be encouraging mixed use developments across New Zeeland. BTR is one example of a development which has both rental accommodation as well as commercial and retail spaces. In our view, an apportionment approach will encourage more of these developments which will allow more land to be available for affordable and market homes.

5.5 We think this aligns with approaches taken by the Government in other parts of their consultation process, particularly around exemptions for new builds.

Purpose-built student accommodation

5.6 We also support an exemption for purpose-built student accommodation on the basis that these particular student residential buildings do not compete with owner-occupied accommodation and would not typically be set up in a way that would be conducive to owner-occupation in the future.

5.7 We agree with using the existing regulatory framework in the Residential Tenancies Act 1986 as it will reduce the risk of abusing the exemption and is a neat avenue for targeting the specific carveout. While we understand the concern regarding exemptions creating an incentive to convert residential apartment buildings into student accommodation, we think this is overstated for two reasons.

(a) Often student accommodation is necessarily more bespoke than residential apartment buildings and require different facilities and set ups. The cost of converting a residential apartment building into a student accommodation would probably exceed any benefit that might exist from an exemption.
(b) Often these buildings are situated significant distances from University or Polytechnic campuses, making that accommodation particularly unattractive from both a distance and safety perspective. The Universities of Otago and Canterbury are moving towards accommodation either on campus or very close to it.

5.8 This aligns with exemptions given to purpose-built student accommodation in other pieces of legislation, such as the Overseas Investment Act.

Serviced apartments

5.9 Property Council recommends an exemption for serviced apartments. The exemption for serviced apartments paragraph (b)(iii) of the definition of "dwelling" in section YA 1 of the ITA provides a good distinction between rental accommodation and serviced apartments. For the purposes of the ITA, a serviced apartment is accommodation for which paid services in addition to the supply of accommodation are provided to a resident, and in relation to which a resident does not have quiet enjoyment, as that term is used in section 38 of the Residential Tenancies Act 1986 (RTA). Section 38 of the RTA states that a tenant shall be entitled to have quiet enjoyment of the premises without interruption by the landlord or any person claiming by, through, or under the landlord or having superior title to that of the landlord. A serviced apartment, therefore, is more akin to a hotel or other commercial accommodation than residential rentals and should be treated as such.

5.10 We also disagree with the view that allowing owners of serviced apartments to claim interest deductions may lead to the conversion of regular apartments into serviced apartments and a reduction in the effective housing supply. We submit that most owners of regular apartments gain a longer term benefit of keeping the apartments as such, and the increased compliance of converting them to serviced apartments would be a deterrent on most owners.

6. New build exemption

6.1 We agree that an exemption from the proposed interest limitation rules be made for new builds. We believe this exemption should be in perpetuity for the initial owners of the property. We also support an exemption for subsequent owners of new builds, with a preference for perpetuity as well.

6.2 If the Government is not minded to extend in perpetuity an exemption for subsequent owners, we believe an exemption should be granted for at least 50 years from the issuing of the CCC to minimise the effect on asset valuations which have to assume trading into the secondary re-sale market. Our view is that a 50 year exemption will provide the most certainty and assurance for subsequent owners.

6.3 We also support the Government investigating whether the exemption should stay with the building, and not the owner. In our view, there is merit to investigating whether an exemption should stay with the building rather than the owner for a fixed period like some Australian jurisdictions are considering.

6.4 We agree that existing apportionment principles should apply where a new build and a non-new build that are on the same title are purchased – i.e., an exemption would only apply to interest on the portion of the purchase price borrowing that relates to the new build.

6.5 We also agree that commercial to residential conversions should be included, for instance in situations when an office building that is converted into apartments, or a large commercial heritage building such as a harbour warehouse that is converted into townhouses. This should be treated similarly to subsequent owners of new builds, i.e. with a 50 year period from the date of completion. Property Council strongly believes regulatory settings should encourage as much as possible increasing supply.

6.6 We recommend reducing the bright-line test to five years for new builds for as long as they are able to claim interest deductibility. Our preference is that the bright-line test be five years across all residential property, including subsequent owners of new builds. Property Council's position is underscored by the low quantitative data supporting the idea many early owners "flip" houses as often as public discourse suggests.

7. Interest deduction on sales

7.1 Property Council recommends that where property is held on revenue account, all denied interest should be deductible at the time of sale (Option B). This reflects the nature of the sale and reflects the economic gain and loss. We agree that deducting at the time of sale when the gain is taxed ensures the owners actual income is taxed, and not overtaxed and overcomplicated.

7.2 We would also argue that a ten year bright-line test increases the opportunity for arbitrage. Our preference as stated in 6.3 would reduce the opportunity for arbitrage and deal with the concerns raised by the Government.

7.3 However, where property is held on capital account, Property Council supports Option F - no deduction should be allowed for denied interest up to amount of non-taxed gain, with excess deductible (subject to ring fencing). Sellers should get a deduction to the extent that their interest cost exceeds the capital gain, as effectively the interest cost relates to both the capital gain amount and the taxable income that has already been returned during the period of ownership.

8. Developer exemption

8.1 We support the Government's proposed exemption for property developers. We raised a number of points in support of such an exemption earlier regarding BTR. We agree that this should also be extended to include one-off developments.

8.2 Property Council's view is that this exemption should not be overcomplicated or complex. It should follow similar rules to the exemption proposed for new builds that if a development is increasing housing supply, then an exemption should be granted to support the Government's objectives. Our view is that a wider approach towards development exemptions should be favoured over carving out too many ways in which a development may not qualify for an exemption.

8.3 We also believe remediation should be included generally under the exemption. As well as increasing housing supply, the Government's goal of more warm, dry housing extends to existing as well as future supply. To that end, supporting landlords and owners to remediate and improve existing stock should be considered as an effective lever to encourage behavioural change. We think that an effective way to administer this could be via statutory declaration at the point when claiming the exemption.

9. Application date

9.1 Property Council recommends the Government push out the application date to after the parliament has passed the changes. We recommend deferring the application date, until 1 April 2022.

9.2 This will do three things which we think are important to the effectiveness of the regime:

(a) It will provide IRD and other systems to ready themselves for a smooth and effective transition that does not cause unnecessary extra cost and burden;
(b) It will allow affected parties – developers, owners, landlords and tenants - to better understand and prepare for the changes so as to avoid confusion and non-compliance; and
(c) It will allow tax practitioners time to prepare and provide timely and accurate advice to their clients in preparation for the change.

9.3 For the benefit of the integrity of the tax system, taxpayers should not be required to make decisions and effectively take tax positions (for instance, for determining provisional tax obligations) based on legislation that has not been enacted.

9.4 Our view is always that rushed application can lead to un-intended consequences. There seems no strong public policy rationale to impose the regime quicker than our proposed timeline above.

10. Conclusion

10.1 Property Council is grateful for the opportunity to provide feedback on the design of the interest limitation rule and additional bright-line rules.

10.2 We do not support the proposed changes to interest limitation and additional bright-line rules. Property Council believes the Government can take alternative policy decisions to increase supply and cool speculation and price increases in the housing market. If the Government does choose to advance these changes, we believe the exemptions we have advocated for will somewhat reduce the likely chilling effect interest limitation will have on developments and ensure houses can still be built at scale and pace.

10.3 For any further queries contact s 9(2)(a) [redacted]

From: s 9(2)(a) [redacted]
To: Policy Webmaster; s9(2)(a) [redacted]
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 7:48:35 PM

Good evening

My name is s 9(2)(a) [redacted] We were looking to buy into an investment property due to the shortage of rentals in our town and watching our friends and family struggle to find somewhere to live.

Personally I think this new interest limitation rule should be scrapped. As an accountant we are seeing many of our residential rental property investors looking to sell. Some properties barely even break even. Yes there is a capital gain but that's not till usually down the track, and why shouldn't they get something for providing housing for people who genuinely aren't able to buy?

Every business can claim interest for loans that are borrowed for business purchases, start ups etc. Having a residential rental property is just the same as owning a business.

I also see friends and family who are being forced to find new rentals since their landlords are selling. Some cannot afford the ridiculous rent and being put into emergency housing - one i know was in emergency housing - a motel, for 3 months! That is a massive cost to the taxpayers.

Children are suffering as they are now being forced to live in properties with multiple families and multiple kids in each bedroom just so they can afford the rent due to the rental property shortages. I feel this could lead into so many different scenarios. Isn't this scary?!?!

Yes I know there are some money hungry landlords out there but to be honest out of all of the ones i have met, typically they aren't. They are just your average people offering a service (well a property in this case) to the public, just like any other business.

I don't understand why they would remove the interest deductibility. landlords are already selling and the desperation to find a rental is real. I feel it will be causing such a negative impact on us New Zealanders.

I don't have much to say on the bright-line test. If it was a case of having one or the other, scrap the interest limitation rule and keep the bright-line test.

Also we won't be purchasing a rental property now. Its just not viable for us now. We will relook into it when the interest limitation rule has been removed.

I really hope all of these scenarios will be looked into.
We are New Zealanders, we are here to look out for our people.

Thanks
s 9(2)(a) [redacted]

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Cc: s9(2)(a) [redacted]
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 7:54:54 PM

Feedback on high water mark (4.29-4.4)
* I agree with the proposed approach to a high water mark.

Feedback on New build exemption (8.1-8.29)
* The new build exemption should apply to both early owners and subsequent purchasers, otherwise the new build owners may be concerned that they will be unable to resell their properties, which could prevent them from purchasing the new property in the first place.
* If the government chooses to apply the new building exemption for a fixed period, I believe that it not equitable to only apply the new build exemption to properties with CCC issued after 27 March 2021, instead the new building exemption should apply to all properties for that fixed duration. Buildings that were built in 2010, should have the exemption until 2030, as these owners have already increased the housing supply, and should not be punished for doing so. I know a number of investors who have settled on properties and had CCC's issued to February 2021 - why should these investors who have increased the property supply be punished?

Feedback on rental loss ring-fencing rules (12.1-12.34)
* It is very unlikely that the rental loss ring-fencing rules are going to apply to any properties after the interest limitation rule is implemented. Leaving these rules in existence creates unnecessary complexity in the tax system, and should be removed.

About myself

I'm currently a landlord and homeowner, but have been a tenant and first home buyer in the past. I first started investing in property in my early 20s. s 9(2)(a) [redacted] My wife and I both have purchased worn out second-hand properties and renovated them to a high standard, such that our tenants frequently stay for 5+ years.

My general position on the interest limitation rule is that the law should be scrapped altogether, otherwise, based on my experience, rents will probably increase by about 40-50% over the next 5 years due to a combination of reduced supply of rental properties and increased costs for landlords. This increase in rent won't help tenants buy their own homes.

Personally as an investor, I don't plan on selling any of my properties as a result of these rule changes, however I won't be buying any more properties.

I am not a tax expert, but have been a s 9(2)(a) [redacted] and am quite good at logic, however these rules seem extremely complicated. The New Zealand tax system is generally held up around the world as a simple to understand system, and these changes are a significant change to this policy.

Regards,
s 9(2)(a) [redacted]

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 8:12:53 PM
Attachments: Design of the interest limitation rule and additional bright-line rules.docx

---

Impact of the proposed policy changes:

We meet the Government's objective to maintain new housing supply, but frustratingly do not qualify for interest deductibility.

s 9(2)(a) [redacted]

Two families tenanted the properties from January 2021.
Code of compliance (CCC) was issued on 17 March 2021, **TEN** days before the cut off for allowing interest deductibility.

We built a multi-dwelling property as part of our retirement plan, somewhere that would meet our needs as our circumstances changed in the future.
The unit is large enough for us to live in with a source of income from the house.
Alternatively, it could be a first home to help our children into a home of their own.
In the meantime, it provides s 9(2)(a) [redacted] warm, dry homes for an affordable rent for the foreseeable future.

My husband and I are within 5 and 10 years of retirement age respectively.
We cannot afford to absorb any increase in costs.
We do not want to increase the rent for our tenants, but we have no option.
We took on significant debt for this new build, and the removal of interest deductibility will cost us upwards of $20,000 per annum.

Money we would normally spend on repairs and maintenance, groceries, restaurants, cafes, holidays, vehicles, local businesses, will have to reduce.
Our retirement plans will be negatively impacted, with our ability to reduce debt even more challenging as we approach our retirement.
We cannot afford to live on the NZ pension alone (it barely covers our annual rates bill).
The Government is penalising "middle New Zealanders" like us who:

- have worked hard all our lives
- have contributed thousands in tax
- are simply trying to take responsibility and save for our retirement

Aspects of the policy that relate to our situation:

1. A second owner (early owner) could purchase our property and acquire the new build

exemption, despite the fact we were the ones who took on the huge task of building a new rental property.
It’s unfair that we don’t qualify for interest deductibility but the second owner does.

A simple and fair solution would be to start the new build exemption from 1 April 2020, or earlier.

2. We built in a new subdivision, our neighbours finished building a month after us and have a code of compliance issued after 27 March 2021, so we have a scenario where the treatment of our neighbour’s house could have an exemption in perpetuity and ours has none.
   This creates a huge inequity and potentially skews the value of their property compared to ours.

3. We agree that the new build exemption should apply to subsequent purchasers. As an investor we would want to know there is a good market for reselling should we need to. However, the flipside is this creates a lasting inequity with one property having an exemption and a neighbouring property may not.

   A fair and very simple solution is to allow the new build exemption for all new property built on or after 1 April 2020.

4. The extended bright-line test for our s 9(2)(a) discourages us from building another new property.

   We were set to repeat our investment model and build another house with attached unit; we have a s 9(2)(a) property with an old asbestos house on it that could be redeveloped for multiple dwellings.
   However, with all the rule changes (increased bright-line, LVRs, the threat of not being able to set rents to cover costs, debt to income restrictions, limitations of interest deductibility, a Tenancy Act that gives tenants the right to not look after our property…) it has become too hard at our age to take on another project.
   New build projects of this magnitude can be stressful and have significant financial risk attached. It’s hard work!

   To encourage us to build on our existing land by subdividing and increasing the number of new houses, the bright-line test should be reduced to 2 years.

5. The proposed rules are far too complex and will make compliance difficult and expensive to administer.

   The rules need to be much simpler and easier to understand and apply.

Mum and dad investors are being treated as the cause of the problem in the housing market, when the main issue is lack of infrastructure and land to build, sky rocketing material costs and a shortage of labour.

There is too much uncertainty for us to build more residential property. Once restrictions on interest deductibility are introduced, it is only a matter of time before modifications are introduced that restrict eligibility further. We've seen this happen with the bright-line test.

I do consent to being contacted by an official regarding this submission or to provide further information.

s 9(2)(a)

PUB-0288

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 8:13:19 PM

I would like to make the following submission regarding proposed upcoming property rules:

With regard to the proposed policy of disallowing the offsetting of interest costs for rental properties against rental income, currently any other type of business is able to offset interest costs incurred in generating income against generated income, so disallowing this for property investment is unfairly targetting a minority group and therefore amounts to discrimination against property investors.

For this reason the proposed policy of disallowing claiming of interest costs on rental properties should be canned.

If discussion is required I can be emailed at this email address.

Thank you

s 9(2)(a) [redacted]

[redacted]

PUB-0289

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: design of the interest limitations rule and additional bright-line rules
Date: Sunday, 11 July 2021 8:30:48 PM

To whom it may concern,

I am a renter. s 9(2)(b)(ii) [redacted] if it wasn't for my landlord who decided not to sell their house when they upgraded because their family was expanding. They kept it only because me and my kids desperately needed a home. They kept the house and took on the extra debt that could have been paid off it they had sold. They kept the rent under market rates, based on what I can afford. I know it doesn't cover all costs because I am close to my landlords mum who told me. They let me have cats and dogs and make alterations to the house to make it feel more homely for me and my kids, this was before that became tenancy law. My landlords mum told me when the new legislation was announced my landlords had to discuss selling the house because s 9(2)(a) [redacted] and aren't sure how to pay so much extra tax without causing them financial distress. Everyone was angry because we can't understand why first home buyers are more important then me and my kids? Why do they take priority? I don't want to live in a tiny run down motel room and get rid of my pets when I can live in my own home, it feels like my own home because my landlords let me treat it like that. I asked them to raise my rent to help, they were really concerned about how that would affect me though.

This is really unfair on all of us, I hope at least there might be a clause that let's landlords that are homing WINZ tenants might get to be exempt or something, then we still get to have a home. I know lots of people having to move out of their homes because of this new legislation and it's not right.

Thank you for taking the time to read this and please call me if you need more info.

s 9(2)(a) [redacted]

[redacted]

[redacted]

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 8:42:55 PM

Kia ora,

My name s 9(2)(a), and you may contact me if you would like to discuss the contents of this email further. Email correspondence is preferred, but I am also available on s 9(2)(a)

My main points and recommendations are:
1. Introducing this change to tax deductibility has set a large amount of uncertainty in the public, at least to myself and those I have spoken with. While I had plans to build further houses when financially able, I am less certain about doing so knowing that you can change the rules so quickly and easily and cause such serious upheaval to plans and livelihoods. Recommendation: scrap the whole process (though I know this won't happen).
2. We recently built a s 9(2)(a) which we rent to two families. Fortunately, we had already bought the land and so we don't have such an extensive mortgage, or we may well have to sell. Unfortunately, even though it is less than two years old, it will not be subject to exemption through your current ruling, which seems ridiculous considering you are proposing to consider future 'new builds' as 'new builds' for 20 years. Recommendation: 'New builds' should be based on the date CCC was issued, and not related to March 2021 in any way. 20 years would be great, but 10 years is a sufficient time to be considered 'new build.'
3. Changing the rules on people's plans and current investments will either result in them selling (which you want) or increasing their rent to ensure they can keep the house (which will happen). So, rents are going to rise dramatically and those at the lower end of the socioeconomic scale are still not going to ever afford a house, and may not even be able to afford rent. We (my family) like to keep our rent down to the point where we are meeting our outgoings and can reasonably pay off the house over 30 years. We will have to increase rent in order to pay the tax on the rental income (which is going to be double taxed anyway since you're taxing people when they get the income and then taxing again as rent). Recommendation: exempt all currently owned houses from the proposal, so that they will still be able to claim tax deductibility.
4. Investors like myself supply rental accommodation, including building new homes, purchasing homes that were not tenantable, or (as I planned) relocating homes to new land to make them into rentals. These changes make it so that we will not have the serviceability to be able to do this, so there will be fewer homes available for rent, at a higher rate (and so it will just soar, as per point 3). With already high rates of homelessness and people waiting months to even years for rentals (see Whangarei), this will make the situation worse - these people are not in a position to purchase a home. Recommendation: scrap the whole process and come up with better initiatives for building new homes and keeping rent rates low.

I do look forward to your release of plan. I hope you listen to the many professional groups who submit for this proposal, as it is going to have severe and devastating consequences for many who currently rent.

Thank you,

s 9(2)(a)

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 8:49:24 PM

Impact of the proposed policy changes:

Earlier this year we built a three-bedroom house with a one-bedroom apartment attached.
Code of compliance (CCC) was issued on 17 March 2021.
We meet the Government's objective to maintain new housing supply.
However, we do not qualify for interest deductibility despite increasing the supply of warm, dry, affordable homes.

We built a multi-dwelling property as part of our retirement plan.
The unit provides a home and income for our retirement.
There is also the potential for our children to live there as our future needs change.
In the meantime, we provide two warm, dry, affordable homes for rent for the foreseeable future.

Removal of interest deductibility will cost us in excess of $20,000 per annum.
We do not want to increase the rent for our tenants, but cannot afford to absorb the increase in costs from our personal income.

Money we would normally spend on repairs and maintenance, groceries, restaurants, cafes, holidays, vehicles, local businesses, will have to reduce.
Our retirement plans will be negatively impacted, with our ability to reduce debt even more challenging as we approach our retirement.

Aspects of the policy that relate to our situation:

1. A second owner (early owner) could purchase our property and acquire the new build exemption. It's unfair that we don't qualify for interest deductibility but the second owner does.

   A simple and fair solution would be to start the new build exemption from 1 April 2020, or earlier.

2. We built in a new subdivision, our neighbours finished building a month after us and have a code of compliance issued after 27 March 2021, the treatment of our neighbour's house could have an exemption in perpetuity and ours has none.
   This creates inequity and will impact our property valuations unfairly.

3. We agree that the new build exemption should apply to subsequent purchasers, to

provide a good market for reselling should we need to. However, this creates a lasting inequity with one property having an exemption and a neighbouring property may not.

A fair and very simple solution is to allow the new build exemption to apply for all new property built on or after 1 April 2020.

4. The extended bright-line test for our age group (50+) discourages us from building another new property.

   With all the rule changes (increased bright-line, LVRs, the threat of not being able to set rents to cover costs, debt to income restrictions, limitations of interest deductibility, a Tenancy Act that gives tenants the right to not look after our property…) we have no desire to take on another new residential build project.

   To encourage us to build on our existing land by subdividing and increasing the number of new houses, the bright-line test should be reduced to 2 years.

5. The proposed rules are far too complex and will make compliance difficult and expensive to administer.

   The rules need to be much simpler and easier to understand and apply.

There are too many scenarios in the discussion document to comment on all the changes that will impact us. Addressing the problem in one area, simply creates a problem in another.

I do consent to being contacted by an official regarding this submission or to provide further information.

s 9(2)(a)

Sent from my iPhone

PUB-0292

From:	s 9(2)(a) [redacted]
To:	Policy Webmaster
Cc:	s9(2)(a) [redacted]
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Sunday, 11 July 2021 8:51:16 PM
Attachments:	s 9(2)(a) [redacted] pdf

Please find attached my submission

--

WeRent!
PROPERTY MANAGEMENT SERVICES

s 9(2)(a) [redacted]

Design of the interest limitation rule and additional bright-line rules
Submission by s 9(2)(a) [redacted]

- I am a property investor s9(2)(a) [redacted]. I am also the principal of a property management company. I have been investing in property since s9(2)(a) [redacted]
- I oppose the proposed laws on interest limitation as they are retrospective and contra to the general principle in tax law of only taxing profit.

Given the stated aims of the legislation, the design of the rules has been well thought out given the complexity introduced.

Residential property subject to interest limitation

- Given the distortions introduced I support the widest possible carve-out policy, thus student and employee accommodation should be excluded.
- Equally, I support the widest possible carve-out for papakāinga housing.

Interest allocation: how to identify which interest expenses are subject to limitation

- I support the proposed tracing approach. If not used then investors would be locked into their current bankers for the next 5 years, which would impact negatively on their freedom to seek the best structures for their needs. Indeed it could hamper the aim for new development and building. s 9(2)(a) [redacted]
- Pre-27 March loans that cannot be traced: I support option 1 – apportionment.

Disposal of property subject to interest limitation

- I support interest being deducted when the property is sold (even when the income from a capital gain is not taxed).

Definition of new build

- I support the definition of a new build as one receiving a CCC after March 27 2021.
- The issue of renovating an uninhabitable dwelling is tricky as there is no way to define such a thing. In practise if you want to improve the quality of rental housing you might as well say any pre-1970 building with a renovation of over $100,000 would qualify as a new build. It would certainly be new. s 9(2)(a) [redacted] If you want to make life better for renters this would be a good way to do it.

New build exemption from interest limitation

- For complex new builds forget about the apportionment rule. To incentivise the creation of smaller units the splitting of a dwelling into 2 or more is good, but the entire loan to purchase the property and renovate it should qualify (not just any additional borrowing). The reason is that few investors would buy and then take out a new loan for the renovation... you can't be sure the bank will extend the loan, so you have to have the funds before you start such a project. So it will be moot.
- I support the backdating under 8.14
- I support the exemption applying for 20 years (it's long enough)
- and to subsequent owners. Otherwise, the new build will be bought at a premium and then drop in value at sale time... kind of negates the purpose of the exemption, and forces owners to hold no matter what circumstances change.

Rollover relief

- I support the roll-over relief proposal. Thanks, a very sensible change which helps people organise their assets and doesn't harm revenue anyway.
- Yes, it should apply on death.

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Cc: x@xx; x@xx
Subject: Design of the interest limitation rule and additional bright-line rules.
Date: Sunday, 11 July 2021 8:52:54 PM

My name i s 9(2)(a) [redacted]

Please allow me to express my concern in regards to the new bright line testing.

I'm fearful in regards to this new policy not only for the economy of New Zealand but for young investors such as myself who want to supply homes at reasonable rental prices across New Zealand. I'm fearful that due to the brightline policy's being proposed will enforce rent hikes across New Zealand that will be detrimental to our economy.

I ask this from a non biast point of view that you review your policy and put more time and effort into asking New Zealand what is best for them rather than keeping this within only those in power.

From:	s 9(2)(a)
To:	Policy Webmaster
Cc:	x@xxx; x@xxx
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Sunday, 11 July 2021 8:52:56 PM

Hi,

My name is s 9(2)(a)
I have just recently brought my first house with my partner and are wanting to someday become landlords and create safe and warm housing for New Zealand renters. For myself to continue this long and hard enduring dream of mine I'd like to add my two cents into a equation and I ask you to scrap the new bright line test policies that you are currently proposing. I feel that there are so many relocatable houses sitting in landbanks that could create New Zealand a cheaper way of getting people in to homes. Not only is it good for the timber and material supply but it is also good for our economy as we are buying homes off local New Zealanders. Most relocatable houses will cost a fraction of the price and need some work to be done which will keep jobs open and give people more opportunity to branch out. Relocating houses is also a great way of using the assets that we already have in New Zealand. We all know the saying reduce, reuse and recycle so why aren't we doing that.

Let the people have there say with a chance to vote on this matter and if in the end of it if the vast majority of New Zealand want this then change the rule.

Kind regard,

s 9(2)(a)

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Cc: s 9(2)(a) [redacted]
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 8:55:33 PM

Submission from:
s 9(2)(a) [redacted]

<u>Background</u>

1. s 9(2)(b)(ii) [redacted]

<u>Specific comments:</u>

1. We feel that incentivising new builds is a good move, as the housing issue appears to be principally due to limited supply coming online
2. The limitation of supply is complex, but is principally due to access to land and to restrictive planning rules and significant input costs across the whole process, more so than investor demands
3. s 9(2)(b)(ii) [redacted]

<u>Recommendations</u>

1. Under Chapter 8, (1.23) we are pro 20 year deductibility (or longer). This enables investment in higher quality housing stock that may not have as good of a return, and needing a longer deductibility period before mortgages are paid off in full.
2. Under Chapter 8, (1.23) we feel that there should be a look-back provision, where if the property was a new-build at the time of being acquired then it is able to be deducted for 20 years from its CCC being issued. This will limit impacts to those, who are like us, committed to adding new housing stock and have done so.
3. Under Chapter 9 (1.24) the bright line is in effect a capital gains tax that for developers that are GST registered results in a nominal sense being a tax on profit of 15% plus the individual or entities marginal tax rate. This means with the latest

personal tax changes that the tax could be as high as 54%. The cost of housing is inherently linked to the cost of new housing, so it would be much better if there was a simple capital gains tax at a flat rate of say 20-25% (incl GST) instead of the bright-line as-is.

I am available to be contacted:
s 9(2)(a) [redacted]

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Sunday, 11 July 2021 8:58:00 PM

I write to you in protest to the Interest Limitation and Bright line test the labour government wishes to impose.

I currently don't own any property in NZ. I one day hope to purchase a house or two.

For the **interest limitation**:
Being a landlord and renting a residential property is a commercial business. It comes with risk, often a lot of work in the form of annual maintenance (from roofing to hot water cylinders). Every other commercial business across NZ has interest (cost) deductibility available.
Why should a business that has some NZ homes they rent out and provide accommodation to others be any different.

The fact that exemptions could be granted for new builds has already seen the interest in new builds skyrocket.

I believe landlords have been made a villain by NZ media and the current government. Where 99% are looking long term and do provide well maintained homes.

Brightline test:
I believe the current 5 year bright line test is sufficient and extending it to 10 years will only dry up the liquidity of houses on the market.

Both these are knee jerk reactions due to the current global situation. Every country in the world is seeing unprecedented growth in residential property.

Without considering these consequences we run the risk of making residential property unbearably unappealing for the future generations. When the simple fact is there will always be people who rent and wouldn't save for a deposit no matter what price the houses are.

Kind regards
s 9(2)(a)

Get Outlook for iOS

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Sunday, 11 July 2021 8:59:09 PM
Attachments:	Submission on Design of Interest Limitation.docx

Dear Sir/Madam

I wish to make the attached submission.

Regards s 9(2)(a)

Submission on

Design of the interest limitation rule and additional bright-line rules.

I wish to submit the following in relation to

Chapter 5

The objective of the bright-line rules are to ensure that people who are investing primarily with the aim of achieving a capital gain rather than rental income are taxed accordingly. A property developer would pay tax on the sale profit but would also be able to fully claim any interest costs involved in getting this gain. This principle should therefore also apply to property investors whose gains become taxable under the bright-line rules. Similarly, if the end result is a loss on sale then that should be deductible against any taxable income as it would for a property developer.

In fact, not having the above could result in some developers, who would temporarily rent out houses during a “down period” in the housing market, leaving them vacant so they don’t get caught with not being able to claim their losses across their wider business.

Chapter 6

There is considerable opportunity for “Infill housing” to be used to increase the supply of dwellings in NZ. Some of this will be done by the existing owners of the properties. This should be encouraged. I am in this position and strongly support clauses 6.4, 6.9, 6.13-6.17.

In terms of clause 6.25 where a complex build is being undertaken on an existing property then I propose that the development exemption should apply from the time that the owner submits either a resource consent or building permit application to the relevant local Council.

Clause 6.28. I fully support the exemption on interest on additional debt acquired for the development activity. At some point there needs to be a date where the cost of interest on the cost of the proportional share of the land value transfers over to the new building land becomes interest deductible. I would propose that build work actually commences on site as that is the date that the occupiers of the existing dwelling lose access to that section of land.

In summary where the land was not acquired for the purpose of development then interest should be deductible on all additional debt incurred in the development from the date that a resource consent or building consent was logged with the local Council. The interest cost on the land apportionment should apply from the date building work occurs on site.

Chapter 7

Clause 7.5 I strongly support the inclusion of relocated dwellings under the definition of a “new build”.

Clause 7.6 and 7.7 I strongly support the inclusion of complex new builds in the proposal.

Chapter 8

Clause 8.20 I believe that the exemption should apply in perpetuity for early owners and a fixed period for subsequent purchasers. Early owners who hold beyond the fixed period have certainly demonstrated that they are in the business of providing rental accommodation and not “property traders”. I accept that 20-year fixed period gives subsequent purchasers a reasonable period to reduce the debt level before the interest becomes non-deductible.

Clause 8.22 to 8.25 A fixed 20-year period for subsequent purchasers, including home owners, keeps the rules clear and simple. The rule lapsing after a home owner has occupied the property is very unfair on home owners who have to sell their property after a short time due to change in circumstance because it eliminates the investor from their pool of potential purchasers. It also penalises home owners who rent their property out for a period while they are working overseas.

Clauses 8.28 I believe that apportionment rules should apply as proposed.

Summary

I believe the legislation should support:

Infill Housing

Allow relocated dwellings and complex builds

Exemption of interest on additional debt acquired for the new build.

The exemption should apply in perpetuity for the early owners and a fixed term of 20 years for subsequent purchasers.

When a property is subject to the Bright-line rules, interest deductions should be allowed at the time a property is sold and any loss should be able to be claimed against any other income.

Yours faithfully

s 9(2)(a)

PUB-0298

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Interest deductibility
Date: Sunday, 11 July 2021 9:02:56 PM

Hi

I am writing about Interest deductibility,this is the 4th submission i have written. I am a landlord and a developer, which i don't sell any properties, the majority are student rentals which are not suitable for first home buyers.

s 9(2)(b)(ii) [redacted]

s 9(2)(b)(ii) [redacted]

s 9(2)(b)(ii) [redacted] Why would this Government consider interest deducibility removal for major property renovations as there are a lot of ageing building stock in this country, and costs have been increasing for Landlords and developers.

s 9(2)(b)(ii) [redacted]

But we feel more taxers could be a struggle to pay and a slap on the face for our hard work. The excuse for removal of interest deducibility is to allow first home buyers into the property market, we personally know a few younger first home buyers, the feeling we get is the majority have higher expectorations on quality. Its my opinion this country has created many precious little darlings with higher expectations , not willing to buy older home and renovate them.

I remember when we bought our first home, there was a world recession where property values were sitting stagnant for many years and it took us 15 years to renovate and modernise our older house.

As we know there's a supply problem and the increase cost to developing property, there

are costs that can be eliminated, some examples GST because we are long term investors we can not claim back, building plans are more intense, local council cost to high, archaeologist is ridiculous, smaller country “economy of scale “ result increase cost to business and the big one is building material companie s and a shortage of labour, they are increasing costs. there seems to be a lot of people making a living from development but not physically building them.
If we to take the building industry back to 20 Years some deregulate there would be a massive reduction to build costs.
Please consider some of my suggestions, its bad enough we all have to deal with covd –19 issues and the uncertainty its creating.
I hope showing some implications and effects increasing taxers (removal of interest deductibility) will have on a long term investor and developer.
Kind regards

s 9(2)(a) [redacted]

[redacted]

From: [redacted]
To: Policy Webmaster
Cc: [redacted]
Subject: Design of the interest limitation rule
Date: Sunday, 11 July 2021 9:04:21 PM

Hello,

I'm not new to being a landlord [redacted] but am only small time with the intent of having something for retirement and/or pass on to the children.

We own 2 rental properties in [redacted]. Both are in social housing - a product by the government that provides wrap around services to those in the community who experience homelessness prior to living in our house. I pay higher insurance - renting to a third party and affectively am taking higher risks and receive market rent. We are happy to provide what little help we can and acknowledge we are in a privileged position to own more than one home and are proud of the sacrifice we have made on average wages and now only on one income to still provide these services. There's been a lot of hard years including life decisions such as delaying having children and working long hours with children in tow to achieve this but I guess none of that matters to media etc as all landlords have the greedy narrative attached.

However, with the introduction of the new interest deduction rules meaning it can no longer be claimed as an expense - our properties go from one being cash flow positive and the other negative already - to both negative cash flow. Unfortunately we would have no choice to sell and force [redacted] back into hotels or worse cars and the streets.

I have been trying to figure out how I can make it work with in your current set of rules but I can't.
Our land is too small to add a new dwelling I've already enquired at council and we are a mere [redacted] sqm short. And although we provide a service in social housing we are still not deemed a business or exempt from this interest deduction rule which makes me think the Government is missing a big opportunity to entice more landlords to provide social housing. Our houses are long term options for whanau who need support to overcome their reasons for homelessness, away from temptations like a emergency hotel environment would provide. Our houses are a lot bigger and mentally a better environment for all to raise whanau and safer. Our houses are houses, not unsafe transition boxes.

My suggestion is to make social housing providers exempt from the new interest deduction rule and in fact put more funds into providing the wrap around services like our provider [redacted] provide. I know there are similar but the services are optional to access and seem to have not as much success - support is the key.

My other suggestion is that local council need to rezone for greater intensity and perhaps take new build applications on a case by case scenario rather than a blanket set of rules. Many of near central [redacted] house sites are around 800sqm - plenty of space for 2 homes yet zoned for only 1 home. Some also have great layouts to meet all the setback requirements but just fall short in overall land size on paper.

There also needs to be greater ability for smaller dwellings for our ageing population -where small dwellings can be added to a site and tenanted by another tenancy or a converted garage or granny flats could be legally accepted and habitable possibly as a new build? Many have been left vacant due to heathy home requirements.

For 20 odd years all I've heard from all governments is to save for retirement and that we have been and now it seems we are tarred with the same brush as speculators and developers when really we are just trying to be self sufficient from handouts come retirement. [redacted] 'm not sure there's been a lot of forecasting into the extra costs of all the extra tabs government will have to pick up but considering Mum and Dad investors make up 30% of the rental market then it's bound to be alot!

In summary:
- acknowledge social housing as a business and make social housing providers exempt from the new interest deduction rules

- provide more wrap around services for social housing s 9(2)(b)(ii)
- local councils should rezone for more intensification and take applications on a case by case scenario for new builds, minor dwellings, granny flats and garage conversions.

Thanks for the opportunity to submit, hears hoping for a more informative and realistic solution to NZs housing crisis that allows landlords to be part of the solution, and not the problem.

Cheers
s 9(2)(a)

Sent from my iPhone

PUB-0300

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 9:10:08 PM

Hello,

I would like to make a submission to the document discussing the interest limitations.

Background

s 9(2)(a) [redacted]

Suggestion to allow providers of private student rentals to deduct their interest

1. If landlords who provide rentals for students won't be able to deduct their interest, it is inevitable that they will be **raising the rents**.
2. This will hit the students pretty hard, as they will **struggle to finance** their living away from home.
3. In turn, they may be applying for a **StudyLink accommodation subsidy**, which will hit the government in return.

Student rentals will unlikely be offered to the general rental market

1. There is a **niche group** of landlords who provide rental accommodation for students only, and they will unlikely make these rentals available to the general rental market.
2. Usually a (student) flat will house **more people in the same dwelling** compared to a standard family, providing more housing in line with the **government's intention**.

Less incentives to improve properties due to lack of cash-flow

1. If landlords who provide student rentals are hit by the interest non-deductibility, they will have **no cash flow** to invest into improving and maintaining the properties, resulting in a **much worse experience** for student tenants.
2. **Renovations are not tax-deductible**, so not being able to deduct interest is going to create a dis-incentive for landlords to improve and modernise their properties.

Enforcing the exemption

1. It should be quite **easy to enforce** the exemption for landlords who provide accommodation for students or several flatmates.
2. It can be proven by supplying a tenancy agreement with **multiple tenants**' names on it, as well as confirming that they are students (**student IDs** should be sufficient).

Based on these facts, I believe that all landlords who provide student rentals (and not just those who rent out boarding houses room-by-room) or rent a property out to a large group should be excluded from the interest non-deductibility.

I'm happy to be contacted by IRD to discuss the points I made above.
My phone number is s 9(2)(a)

Kind regards,
s 9(2)(a)

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Sunday, 11 July 2021 9:26:43 PM

Dear IRD

I am not in favour of the interest limitation rule. This further discourages investment in existing housing by reducing cashflow from investment properties.
This takes properties (with debt on them) on the edge of being cashflow positive and pushes them into being cashflow negative.
It should not be retrospective. It is not fair and damages the social contract the IRD has with businesses.

s 9(2)(a)
[redacted]

From:	s 9(2)(a)
To:	Policy Webmaster
Cc:	s9(2)(a)
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Sunday, 11 July 2021 9:27:11 PM

To whom it may concern

You have asked us to review the proposed taxation of rental properties including the removal of interest as a tax deductible expense and the rules around to the "bright-line test".

The justification for the changes is to provide fairness in terms of property ownership and reduce the number of private investors competing against first home buyers for a limited number of houses. By increasing the taxes on existing houses, the government hope to encourage investment in new houses.

Interest Deductibility Removal

The argument for the interest removal on the grounds of "fairness" in that home owners are unable to offset their mortgage interest payments against any income they derive from the property, as they are not earning any income from their property.

Home owners inability to claim interest costs is considered an unfair advantage that business owners "enjoy". Many businesses are financed through loans secured on property as property risks are deemed to be lower than many other business assets and attract a lower interest rate as a consequence. Many home owners use their own homes to help with their business finances. This proposed new rule implies that the costs associated with any loans for any business, that are secured against property, cannot be offset against income.

You ask us for comments with respect to other businesses and whether it would be fair and reasonable to extend the interest deductibility removal to other businesses or social housing providers. The implication in the discussion document is that pretty much every business, other than private individuals with a few stand alone rental properties (and no other investments such as boarding houses), should be excluded from the rules. The discussion document takes 143 pages to list the possible exclusions.

Since the suggested rules are an attempt at "fairness" they should either apply to ALL businesses, including social housing providers, or NONE. The proposed rules would appear to only provide an advantage to accountants and tax consultants.

The alternative means of providing "fairness" could be to either:

a) remove the ring-fencing rule and allow home owners as well as investors to claim a tax refund for interest payments on any property loans up to 30% of their home value. OR

b) limit the amount of interest that can be deducted to a loan equivalent to the maximum LVR for that property (i.e. investors who use the equity in their own homes to buy rental properties would only be able to claim the interest costs of the loan covering 60% of the property value).

Additional bright-line rules

s 9(2)(b)(ii) [redacted]

New Zealand does not have a Capital Gains Tax but it does have "Bright-line". Bright-line was intended to catch property **speculators** who had bought a property with the intention to sell at a profit after making improvements to the building so that it was worth more in real terms. There are many builders and home owners who supplement their income by buying dilapidated properties, doing them up, and selling them for substantially more than they paid for them. The increase in value should cover their expenses and labour costs with them paying tax on any income derived. Speculators are reliant on a quick turn-around to limit their holding costs. Speculators improve the overall housing stock and pay tax on any added value they have created in their houses. The bright-line test of two years was introduced to help identify speculators that may not have been declaring their profits.

Conditions relating to death of partner or relationship breakdown?

s 9(2)(a) [redacted] The future is uncertain and therefore changing the tax from a tax on property speculation to a tax on inflation that affects nearly all residential property bought or sold (or even put into a trust) within ten years of last transaction will become a night-mare that discincentivises any form of private home or residential property ownership.

However, it appears that a public property investment company with a mixture of residential and commercial investments would be able to buy and sell property without payment of tax under the bright-line rules and could claim interest payments against income. Payments to shareholders would also be at company tax rates and any losses would not be ring-fenced.

Extending the bright-line test to include houses held for up to ten years changes the tax to a capital gains tax without any allowance for house price inflation or the fact that the "gain" was earned over a number of years. Unlike every other country with a Capital Gains Tax, the tax is levied at the highest income tax rates possible. Similarly, many countries with a CGT defer the tax if an investor sells one property and then buys a replacement property e.g. if a home owner is up-sizing. Under the Bright-line rules, a private investor/landlord wishing to relocate their investments for any reason may find that the sale price, less the tax, leaves them with insufficient funds to purchase replacement properties in a more suitable location. However, corporate investors or overseas investors will be able to avoid the tax by hiding the transactions in their corporate or off-shore accounts.

I believe that a CGT would be a fairer tax on property than the 10 year bright line test as any CGT must include an allowance for cost fluctuations so that only the real value increase is taxed and then only at the lowest tax rate.

The proposed rules would appear to capture and penalise any friend or relative who may wish to assist a first home buyer. For example a parent may help a child by buying a 20% share in their house so that the child does not need a deposit. If the property is sold within the 10 year period, if the 20% share has increased in value the parent would have to pay tax as the house is not their principal residence. If the parent provided the deposit as a loan they may need to charge their child an extra 50% of any interest so that they can pay their own interest costs as well as the tax on the money received.

Many first home buyers are only able to manage their deposit with the assistance of family or friends. These new rules imply that any assistance and subsequent buy out by the FHB will incur tax on any "profit" the assistant makes even though the person providing the assistance may have needed to increase their own borrowing to cover the deposit. Due to the interest deductibility rule above, their interest payments might not be claimable and certainly would not be claimable against any payment received from the home owner before the house is sold.

Tax on unoccupied family home

The rules also mention taxes on the family home if it is unoccupied for a total of more than 12 months. This could easily happen if a property is purchased in anticipation of retirement but for some reason or another the retirement date is deferred. Similarly, it can take several months or more than a year to sell a property if it is in an unpopular location. Hence a home owner that is forced to re-locate (e.g. to be closer to a hospital) may find that their property drops in value while they wait for a buyer but that they still get charged tax under the Bright-line rules. s 9(2)(a) [redacted]

Extending bright-line to 10 years, and including owner occupied houses that may be temporarily unoccupied (or rented out), is a tax on inflation. It will have no effect on speculators but will make it difficult for owners to lease out their properties while they are on temporary re-location (e.g doctors or police), so will reduce the available housing supply.

Effect of proposed changes

I am a property owner. s9(2)(a) [redacted]

s9(2)(a) [redacted]

s 9(2)(b)(ii) [redacted]

s 9(2)(b)(ii) [redacted]

[redacted]

We have considered our options and have discussed them with our tenants as they will be heavily affected by our decisions.

Conclusion

The worst part of these changes is the speed with which they were introduced. They were introduced just before the start of the current tax year and will apply this year, almost before anyone understands the rules let alone the true implications. Other than this consultation around the wording of the tax changes, there has been no consultation on extending bright-line, no consideration of Ministry advice and no consideration of possible effects and outcomes.

The government have said that they want to encourage investment in newly built homes by providing special exclusions to them. This would be excellent if they hadn't just demonstrated how any incentives can be removed on a whim.

This makes it very difficult for us to plan for the future or make any changes to align with government policy.

Thank you for considering my submission

s 9(2)(a) [redacted]

[redacted]

[redacted]

[redacted]

PUB-0303

From:	s 9(2)(a)
To:	Policy Webmaster
Cc:	s9(2)(a)
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Sunday, 11 July 2021 9:28:58 PM
Attachments:	Interest limitation and new Bright-line Rules submission 11.06.21.docx

---

HI

please see my attached submission for Design of the interest limitation rule and additional bright-line rules

thanks

s 9(2)(a)

[redacted]

[redacted]

From: s 9(2)(a) [redacted] Christchurch 11 July 2021

I oppose the introduction a combination of both interest limitation rules and new bright-line rule. These profoundly affect myself and thousands of other hardworking mum and dad small-time property investors, planning for a secure retirement by providing good quality rental homes now.

s 9(2)(b)(ii) [redacted]

The proposals are overtly complicated, and inadvertently may set up potentially difficult financial complexities and tax issues. Investors need clear information when planning long term financial goals. These new rules HAVE derailed our financial and retirement plans. Risks are potentially worse for both us as the tax payer and our tax accountants, having to navigate complex tax rules, and potential liability issues will ensue in attempts to understanding, complying and administrating the new rules. And potential subsequent dealings with tracing, proof, time and numerous evidence required, if audited by IRD.

Suggesting current investors to sell off their existing rental home(s), and to enter the New Build arena, is not so straight forward, and uncertainties for tenants tenures will result. There is overdemand for new builds currently, and supply issues are delaying production and building materials costs keep skyrocketing. Many investors will not be able to change plans and invest in new builds.

Comments for govt’s discussion document:
Chapter 2.91-2.93: I do not think carveouts are necessary. Race based or Maori preference will exclude other ethnicities who may have similar needs but are less vocal as they are a smaller voice. Rules could be flouted by extended families.

Chapter 3.17: I support Kainga Ora initiatives, these are not race based, but based on need. Fair for whatever ethnicity. **Chapter 4**: too complicated. **Chapter 5**: option C.

Chapter 8: is complicated- rules and administration
Should be CCC and new build for a fixed period eg 20yrs as subsequent buyers can determine this fairly quickly, without necessarily getting evidence from vendor (often vendors are opaque and provide very limited old paperwork to real estate agents. Especially “out of town vendors”)

Chapter 9: too complicated. Everyday investors can’t easily plan with such rules.

Chapter 10: roll over relief. Grateful the 143 page proposal has something to help the investor of existing homes, who has a limited budget and can’t simply change investment strategy to supply a new dwelling.

Chapter 14: all proposals are overtly complicated. Combined and introduced all this year, will cause alarmingly complex understanding, compliance, and administration of these rules by the Taxpayer AND together with associated costs and time for their tax accountants to work out, AND also for the IRD to check and review and find errors which can be costly! etc etc etc.

Property investors are stressed, selling up, or putting up rents to recover added costs, all to the detriment of our tenants. s 9(2)(a) [redacted]

Thank you for reading my comments.

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Sunday, 11 July 2021 10:00:06 PM
Attachments:	s 9(2)(a)

Hi There

Please take a look at my letter on the proposed new tax law and how it will heavily effect myself and my tenants

Regards

s 9(2)(a)

[redacted]

Subject: Design of the interest limitation rule and additional bright- line rules

Name: s 9(2)(a) [redacted]

Background: s 9(2)(a) [redacted]

My Recommendations:

- I strongly oppose legislative change and think that it undermines the entire NZ tax system that allows business expenses to be claimed against business income. It singles out a single asset class and complicates what was a relatively robust tax system. I think that the proposal should be scrapped completely it is going to force me to increase my rents to cover the lack of deductibility.
- **Chapter 5** – a deduction should be allowed at the time of sale if the sale is taxable, as all the income from investing in the property is taxed. I think that the entire interest paid should be able to be claimed as a deduction, even if this results in a loss. This loss should be carried forward in the entity that incurs it. Again, this aligns with the rest of the NZ tax system.
- **Chapter 6** – Development exemption. Major renovations to a property (remedial work), which includes adding a bedroom to the property, should be covered under this exemption. A bedroom is adding to the housing supply in the market and the renovation is extending the life of the property and adding comfort to the living condition for the tenants. To make this easier to define what the renovation involves, investors could provide evidence to accountants or IRD of updating the property file with council, to prove the extra bedroom has indeed been added. This would then qualify this property for the 'complex new build' category. And allow continued interest deductibility for this property.
- **Chapter 7** – the adding of another bedroom, which is increasing the capacity of existing housing stock, and hence adding the housing supply (like splitting an existing dwelling into multiple dwellings but keeping the same overall number of bedrooms) should be classified as a complex new build.
- **Chapter 8** – the new build exception should apply to both early owners and subsequent owners for a fixed period of 20 years from the date the new builds CCC is issued. If this does not occur the market will be impacted with near new properties significantly dropping in value relative to the new properties.
- **Chapter 9** – new fields should not be added to income tax forms – this will further complicate an already complicated process, and further increase compliance cost for residential property investors. Tax law in NZ is complicated enough for the average investor, this adds further complexity to the system.

Further detail and history:

Impact- s 9(2)(a) [redacted] This is completely against the intention of the proposed legislation "to tilt the playing field away from property investors and towards first home buyers".

I feel the proposed legislation adds confusion and complicates the tax system in NZ, from one that was world class to one that is complicated and difficult to navigate and singles out specific asset classes. It makes me worry about investing in NZ further. NZ does need private investors in the residential property market, and this legislation scares me away from investing further. This will further reduce supply of housing, which will increase both rents and property prices, which is in opposition to the objective of this proposed legislation.

I am happy to be contacted to discuss my submission. Ph Number: s 9(2)(a) [redacted]

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Cc: s9(2)(a) [redacted]
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 10:14:58 PM

To whom it may concern,

My name is s 9(2)(a) [redacted]

While I believe the intent to encourage new builds is good, the legislation as it stands is going to reduce investment in rental properties, as money that could be spent on improving stock or investing in new builds is now going to be unavailable.

s 9(2)(a) [redacted]

Given the above, while I don't support the legislation I would like to provide the following recommendations for changes that I believe will assist with helping achieve its intended goals while reducing unintended consequences.

1) Increase the grandparented interest deduction period to 8 years (i.e. 12.5% per annum increase) to reduce the proportion of the tax cost that must be passed through as a rental increase, and allow rents to increase at normal market rates. (1.8)

2) Allow deduction for interest be allowed at the time of sale if the sale is taxable (on revenue account), as in that case all the income from investing in the property is taxed.

3) believe adding a bedroom to an existing dwelling should be considered increasing housing supply and therefore be considered under the New Build category, where the bedroom meets legal obligations (e.g. at least 6m2 for a single occupant) and is recorded on Council Records. This will encourage some owners to renovate and reconfigure their properties to provide increased accommodation. (Chapter 7)

4) Existing properties that are being developed should be included in the development exemption. In this case I propose the exemption should start at the point material physical works commence onsite (e.g. demolition of existing building, commencing earthworks). (Chapter 8)

5) 8.10 Early Owner should also apply to Simple New Build, replacing an existing dwelling with one or more additional dwellings. It is not clear why this circumstance is not covered, or why it should be treated differently to other types of new builds.

6) I see no need for a subsequent purchaser beyond the first purchaser after development to be covered under the exemption, as I do not believe this will act as additional incentive to build new dwellings. I believe the exemption should be in perpetuity to encourage investment in new dwellings and long term investment. (Chapter 8)

FInally, I believe this legislation is complex and is likely to increase the time and costs related to administration of our accounts, and make it more difficult to determine if we are paying the correct amount of tax.

Please feel free to contact me regarding any of the points I have raised above.

Regards,
s 9(2)(a)

From:	s 9(2)(a)
To:	Policy Webmaster
Cc:	xxxxxx.xxxxxx@xxxxxxxxx.xxxx; xxxxxxx.xxxxxxxxx@xxxxxxxxx.xxxx.xx; s 9(2)(a)
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Sunday, 11 July 2021 10:19:14 PM
Attachments:	Submision on housing taxation.pdf

To Whom it may concern,

Ref; above subject. Attached is our submission.

Kind regards

s 9(2)(a)

DESIGN OF THE INTEREST LIMITATION RULE AND ADDITIONAL BRIGHT-LINE RULES.

Amendment sought:

To extend the definition of “New Build” to include all properties with a Code Compliance Certificate issued after 27 March 2019 or if this is considered to expansive to include all properties with a Code Compliance issued after 27 March 2020.

Reasons for requested amendment

If the government wishes to increase the housing pool, reduce the potential for rent increases which will essentially adversely affect both long term renters and first home buyers trying to save a deposit, it needs to:

1) Expand the pool of properties unaffected by the tax changes so as to reduce rent rises
2) Retain a base of rental properties which are unlikely to be on sold or it risks having a rental shortage
3) Avoid placing investors in a financial position that they are unable to purchase any more “New Builds”

Those properties purchased new and settled after 27 March 2019 are caught by the brightline test and so selling these properties is not really an option, and before the brightline test timeframe finishes the full tax regulations will be in force. Therefore it is very likely that these property owners will seek to increase rents to cover the tax increases to allow them to retain the properties until the end of the brightline test period.

These investors were adding to the housing pool and so were doing the “right thing”

Property investors who purchased recent new builds are heavily disadvantaged as their options are limited in comparison to properties purchased outside of this timeframe.

This amendment would bring the timeframe back similar to that for the proposed “transitional period” placing developers and investors on a more equitable footing. Would also bring it in keeping with banks new build definition

If these changes are not implemented investors with properties in this category are unlikely to be in a financial position to purchase any more new properties and will therefore not be assisting in adding to the housing pool.

Yours sincerely,

s 9(2)(a)

PUB-0307

From: s 9(2)(a)
To: Policy Webmaster
Cc: s 9(2)(a)
Subject: The interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 10:20:32 PM

To whom it may concern.

We agree with the bright line intended rules being increased to 10 years however that is if the Interest Deductibility does not come into effect.

We do not agree with the intended interest limitation rule in the proposed form.

We do agree something does need to be done to dampen the current housing market with the rate house prices are increasing and the lack of supply.

Currently we under charge on our rentals by around $30 per week. If we are to lose the Interest Deductibility on the rentals we will increase our rents to recoup our losses.
As we rent to young families with young children, this could affect them from being able to save for a deposit for their own homes.
By increasing the rents the tenants could be forced to move to areas less desirable where the rents are at their current level. This could also affect schooling, daycare, friends and drive times to work. Developing new relationships with neighbours which they may or may not get along with.

There are Mum and Dad who are helping their children get into the housing market, therefore the kids are renting from their parents to buy or share ownership. The calculations to afford this prior to the 27th March would include the interest deductions. You are now punishing these go getter Kiwis for trying to get ahead and help their children. They will have to top up their mortgages as they will not want to pass the increased costs to their children. There will also be increased costs to administer this new tax charged by Accountants. They must be rubbing their hands together.

If this proposal is to go ahead we suggest the Interest Deductibility on existing houses purchased after the 27th March. We do not believe retrospecting the Interest Limitation Rule will succeed in reducing house prices or tilting the market towards First Home Buyers which is the current Government's aim. This would be a great incentive for Mum and Dad investors to move towards new houses thus helping increase the supply. However I do see a downside in that if demand increases for new builds and the supply cannot keep up (as what is currently happening) then this will force prices up simple Economics 101.

Retrospectively introduced Interest deductibility is a new tax which is unfair on Property owners who provide housing where the Government cannot provide enough rentals. I am not sure of the number who would find this new tax untenable however if there are less rentals this would also put a strain on the rental market leading to increased rents and more people not finding a rental property. If you have a bad credit history you will find it harder to rent/find a rental putting further strain on the rental property market. This is evident with the amount of Emergency housing that is increasing due to the current shortage of rentals.

The Government says it would like to tilt the housing market away from investors and towards first home buyers. It could do this by making investors come up with a 50% LVR? The 40% LVR has already shown signs of slowing the investor from purchasing. First Home Buyers may only need 10 to 20% LVR?

Thank you for your time, we certainly hope this new law does not come into effect. We would be more than happy to take part in further discussions/working groups associated with these proposed changes,

Kind Regards
s 9(2)(a)
[redacted]

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Cc: s9(2)(a) [redacted]
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 10:20:34 PM

To whom it may concern,

s9(2)(a) [redacted] I am currently a property investor who invests in residential property s9(2)(a) [redacted]. s 9(2)(b)(ii) [redacted]

While I agree that as a nation, we must make changes to increase housing supply – I do not support the proposed legislation.

- Chapter 1.5: One of the government's Housing supply objectives states that the interest limitation and bright-line extension **should not discourage new additions to the stock of housing**. s 9(2)(b)(ii) [redacted]
- Chapter 1.8: Increase the grandparenting interest deduction period to 8-10 years. s 9(2)(b)(ii) [redacted]
- Chapter 7.9 Definition of "new build". I recommend that you allow the addition of a bedroom to be included under the development definition. If this is updated on council plans, we have clearly added an opportunity to house more people in a single dwelling. Strict area standards on what classifies as a bedroom should be adhered to.
- Chapter 14: Adding to our administration costs. We already pay $2000 per annum for our accountant fees and this is set to increase but it will be even worse if additional reporting requirements for residential rental property owners are put in place. The cost of constant policy changes made by the government should not be passed on to the property owner. Ultimately the money will have to come from somewhere, resulting in either increased rents for tenants or property owners having to top up our shortfalls.

I welcome any queries you may have, so feel free to contact me for any further clarification.

Regards,

s 9(2)(a) [redacted]

s 9(2)(a)

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 10:25:28 PM
Attachments: Submission to Government regarding non deductibility of interest on mortgages.docx

---

To Whom it May Concern:

Please find my attached submission on the proposed new tax ruling

Regards

[redacted]

Submission to Government regarding non deductibility of interest on mortgages

Regarding the proposed new ruling of disallowing interest to be deducted on mortgage loans as a legal expense, I strongly disagree with this. The Government should treat private rental businesses in the same way as other legal businesses. Disallowing property investors (PI) who have obtained properties prior to 27th March 2021 from deducting interest as an expense on mortgages <u>will not</u> make housing more affordable for first home buyers. It is estimates that this new ruling if implemented will increase the financial liability for a number of PI by $4,000 to $5,000 per property per year. This will cause the following:

1. **A number of investors will try and offset this loss by increasing rents which will add further financial strain on tenants.**

2. Those tenants who are saving for a deposit for their first home will find it more difficult to obtain their deposit.

3. Rents can only be increase to so much and it will come to a stage where PI will not be able to cope with the extra financial burden and will be forced to sell. This will reduce the rental stock and cause rent increases.

4. Going by the 2018 census, there will probably be hundreds of thousands of PI that will be affected by this new ruling and **we could a see a rental crisis never seen before in NZ.** Future property rental stock will be reduced and I don't believe that new builds will fill the rental gap caused by this new ruling in the near future, going by the delays and increases in the costs of building materials. It has been stated that rents in new builds will be higher than in existing properties because of the increase in building costs.

5. Property investors will focus on buying new builds in the future if this new ruling is introduced because of the tax advantages. We will continue to see PI competing with first home buyers in this area. As a result, **new home buyers are no better off, and will make the situation worse for existing tenants and first home buyers.**

If the Government wants to fix the housing problem, **it needs to stop putting the blame on PI and acknowledge its own short falls.** It needs to look outside the box and look at more constructive ways of solving the housing affordability problem. **There is a sense that the Government's ideology is the driving force behind the decisions that they are making regarding PI**: property investors are bad and need to be stamped out no matter what collateral damage it causes. **What the Government is doing is a blatant abuse of political power against property investors. An independent working party free from political influence would be better at looking at this critical issue.**

<u>**Suggestion:**</u>

The Government along with local councils could look at setting up special housing zones in or near major centres for first home buyers. In these zones first home buyers could be given the option to:

1 Lease the land the house is on with the right to make it freehold in the future. They will need to purchase the building.

2.Provide a rent to own situation, where buyers need to provide a deposit.

In a recent NZ Herald article, it indicated that it would require a couple looking to buy their first home 9yrs to save a deposit for a $800,000 property. If the Government with local councils were to provide the above options the affordability problem may be solved because first home buys will not have to worry about the initial huge cost of purchasing the land and the initial deposit will be more obtainable in a shorter period of time.

Outcome:

1. More first home buys will be able to purchase their home earlier
2. Reduce financial pressure on first home buyers
3. First home buyers will not have to compete with other buyers.
4. Reduce the number of people requiring rental accommodation, thus reducing rents
5. Property investors will not be forced to sell their properties

This would be a win-win situation for all concerned.

s 9(2)(a)

[redacted]

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 10:58:46 PM
Attachments: Design of the interest limitation rule and additional bright-line rules - Recommendation.docx

---

Hi there
I would like to submit my recommendation for the above matter.
Thank you for your consideration.

Best regards,
s 9(2)(a)

Subject: Design of the interest limitation rule and additional bright- line rules

Name: s 9(2)(a) [redacted]

My background: s 9(2)(a) [redacted]

I have read the proposal and here are my recommendations:

<u>1) Interest deductibility in general</u>

Firstly I totally disagree with the interest deductibility ruling. My understanding from tax rule is every business expenses must be allowable to deduct against the income generated from it. The idea is generate activities into the market by spending money and the government encourage such activities to stimulate the economy by allowing investor to claim as business expense.

Single out this asset class just undermine the impact of the economy cycle to the market. A small country like NZ should encourage as many spending as we could.

<u>2) Chapter 7 – Complex new build</u>

- Adding a new room to an existing dwelling should qualify for Complex New Build. It does increase the capacity of existing housing stock, for example converting a 2 beds to 3 beds this would allow to accommodate more families or larger flatting mates, when a 2 bedroom house is unable to do or sufficed. This directly increase the housing supply to wider group of buyers.

  For tax administration, such renovation can be distinguished through the Council Database.

- Renovating an unhabitable dwelling so that it becomes habitable is certainly adding to the housing supply. To make this easier to define what habitable involves, investors could provide evidence to accountants or IRD of updating the property file with council through CCC, to prove the property is habitable and approved by Council.

<u>3) Chapter 8 – Interest limitation</u>

The new build exception should apply to both early owners and subsequent owners for a fixed period of 20 years from the date the new builds CCC is issued. If this does not occur the market will be impacted with near new properties significantly dropping in value relative to the new properties.

From: s 9(2)(a)
To: Policy Webmaster
Subject: Interest limitation rule and additional bright line rules
Date: Sunday, 11 July 2021 11:21:59 PM

>
>
> - I disagree with the propose interest limitation rules

> - Capital account property holders who are caught with the taxable sale should be able to deduct interest for the whole period of ownership in the year of sale

> - Date of commencement for new build should be the earliest date possible in the process of developing, and I suggest from date the existing tenant moves out.

> - Rollover relief should be included and should be broadened to include LTC elections and all related party transfers, including share transfers. This should also be back dated to 29/3/18
>
> Overall – I disagree with the proposed interest limitation rules. It does nothing to help with the supply of housing, and does nothing to achieve one of the governments key housing objectives, which is to ensure "affordable home to call their own". I believe rents will increase over time as more existing rentals are sold to personal house owners.
>
> Capital account property holders – If a long term hold rental property is sold, and is caught by the brightline rules or other taxing provisions, then interest should be fully deductible in the year of sale. The long term hold investor is already paying a large amount of tax if the sale is taxable, and if interest was not an allowable deduction, tax would then be at an unreasonable level and would severely penalize the property owner. If interest was not deductible for a taxable sale, it could see an owner paying more tax then the gain they made.
>
> Date of commencement for new build – Interest deductions should be allowed from when the tenant moves out from the old property. This should be the first stage in an older rental property becoming a new build. Or the interest should be allowable from when the older property is demolished.
>
> Rollover relief - I agree that there needs to be rollover relief now that Brightline has been extended to 5 and then 10 years. This should cover all related party transactions, and the following should receive rollover relief
> - Becoming an LTC should also be excluded from a brightline sale, as becoming an LTC can simplify ownership for a Company and reduce unnecessary compliance costs.
> - Sole trader or partnership to LTC, Trust, Company or LP
> - LTC share changes, between related parties, including to Trusts and between individuals
> Roll over relief should also be back dated to 29/3/18 as there are a lot of rental property owners who unintentional have been caught by these very complicated rules
>
> Make it simple – 143 page of discussion document, shows that these rules are already too complicated and will be an unfair burden on taxpayers to comply with the rules. The new rules need to be simple and easy for all to follow.
>
> Kind Regards
> s 9(2)(a)

From:	s 9(2)(a) [redacted]
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Sunday, 11 July 2021 11:23:53 PM
Attachments:	s 9(2)(a) [redacted]

To the Deputy Commissioner, Policy and Regulatory Stewardship:

Thank you for providing the public an opportunity to make a submission on the design of the limitations of interest rate deductibility and extension of the bright-line rules, and for listening to and incorporating that feedback.

My chief area of concern is regards to interest rate deductibility, and to that end I offer the following recommendations:

- **In principle, I support the government's efforts to find ways to incentivise real estate investors to invest in increasing housing supply and adding value to housing quality, rather than engage in rent seeking behaviours.**

- **The new policy should *not* limit labour mobility, and this can be accomplished by allowing for interest rate deductibility on one IP where the owners are renters themselves.**

Issue: s9(2)(a) [redacted]

While we hope to make this our home for many years to come, s9(2)(a) [redacted]

We are not investors or speculators in the housing market, housing affordability is very near and dear to our hearts, and have purchased our home out of a need for healthy, warm, and dry housing. s 9(2)(b)(ii) [redacted]

Recommendation: Please allow interest rate deductibility on one rental property, where the beneficial owner(s) of the rental property are they themselves renters.

- **The new policy should create tax parity between Owner Occupier (OO) and Investment Properties (IP).**

Issue: In part, it was a lack of parity that advantaged IPs, by giving investors the ability to deduct interest where OO were not able to do so that led to a real estate market being dominated by investors. Under the new policy, for existing housing stock, OO and IPs are set to be treated with parity going forward, but new housing stock will continue to preference investors.

Recommendation: I would highlight that an OO who builds a property should be given the same right to deduct interest (from their income) as an investor as the OO is providing the same benefits to the society as the investor (increasing housing supply). If the direction of the Government were ever reversed to allow interest rate deductibility on existing properties for investors, then this right should also be given to OO to maintain parity (as is the case in the United States where home owners are able to take a mortgage interest tax deduction.)

- **The new policy should promote growth in the real economy by allowing for interest rate tax deductibility for home equity leveraged to start or invest in a non-Real Estate (RE) business.**

Issue: One concern that is highlighted over and over again is that investors are pouring their money into residential RE, where they are effectively camping their capital, and that this is in turn collectively making the country poorer by depriving non-RE industries from access to that capital which they could be using to grow and create new jobs. In this light, the spirit of the new policy is to encourage job creation via investment over rent-seeking behaviour.

Recommendation: The new policy should ensure that prospective entrepreneurs are able to deduct interest when they tap into their home equity, such as through revolving credit facilities and offset mortgages, to fund start-ups or invest in non-RE business.

- **The new policy should also incentivise the remediation of significant RE defects endemic to Aoteroa New Zealand, namely to remediate leaky buildings, asbestos, and in order to meet the standards of the day to qualify as a healthy home.**

Issue: These defects effectively limit housing stock, and can cost unwitting Owner Occupiers and First Home Buyers (FHBs) hundreds of thousands of dollars in each instance to successfully remediate. The problem is chronic, and there is zero market incentives to fix the damage, rather only to hide it and try to pass it along to the next unwitting buyer.

Recommendation: The Government could incentivise remediation by allowing interest rate tax deductibility on the portion of a loan used to remediate properties and/or by offering depreciation for tax purposes on the cost of successful remediation.

- **The Government should be vigilant for unintended consequences of the policy, including monitoring if rents increase or if there are increasing wealth gaps between those that own existing homes vs those that invest into new homes. As well, the Government should measure the policy's success at increasing housing affordability and increasing homeownership in Aoteroa NZ.**

Officials from Inland Revenue may contact me to discuss the points I have raised, if they so require.

Thank you for taking the above points into consideration.

Sincerely,

s 9(2)(a)

s 9(2)(a) [redacted]

Sunday, 11 July 2021

Design of the interest limitation rule and additional bright-line tests
C/- Deputy Commissioner, Policy and Regulatory Stewardship
Inland Revenue Department
P O Box 2198
Wellington 6140
policy.webmaster@ird.govt.nz

Subject: Design of the interest limitation rule and additional bright-line rules

Deputy Commissioner, Policy and Regulatory Stewardship:

Thank you for providing the public an opportunity to make a submission on the design of the limitations of interest rate deductibility and extension of the bright-line rules, and for listening to and incorporating that feedback.

My chief area of concern is regards to interest rate deductibility, and to that end I offer the following recommendations:

- **In principle, I support the government's efforts to find ways to incentivise real estate investors to invest in increasing housing supply and adding value to housing quality, rather than engage in rent seeking behaviours.**

- **The new policy should *not* limit labour mobility, and this can be accomplished by allowing for interest rate deductibility on a maximum of one IP where the owners are renters themselves.**

  Issue: s9(2)(a) [redacted]

s9(2)(a) [redacted]

While we hope to make this our home for many years to come, s9(2)(a) [redacted]

We are <u>not</u> investors or speculators in the housing market, housing affordability is very near and dear to our hearts, and have purchased our home out of a need for healthy, warm, and dry housing. s9(2)(a) [redacted]

<u>Recommendation</u>: Please allow interest rate deductibility on a maximum of one rental property, where the beneficial owner(s) of the rental property are they themselves renters.

- **The new policy should create tax parity between Owner Occupier (OO) and Investment Properties (IP).**

  <u>Issue</u>: In part, it was a lack of parity that advantaged IPs, by giving investors the ability to deduct interest where OO were not able to do so that led to a real estate market being dominated by investors. Under the new policy, for existing housing stock, OO and IPs are set to be treated with parity going forward, but new housing stock will continue to preference investors.

  <u>Recommendation</u>: I would highlight that an OO who builds a property should be given the same right to deduct interest (from their income) as an investor as the OO is providing the same benefits to the society as the investor (increasing housing supply). If the direction of the Government were ever reversed to allow interest rate deductibility on existing properties for investors, then this right should also be given to OO to maintain parity (as is the case in the United States where home owners are able to take a mortgage interest tax deduction.)

- **The new policy should promote growth in the real economy by allowing for interest rate tax deductibility for home equity leveraged to start or invest in a non-Real Estate (RE) business.**

  <u>Issue</u>: One concern that is highlighted over and over again is that investors are pouring their money into residential RE, where they are effectively camping their capital, and that this is in turn

collectively making the country poorer by depriving non-RE industries from access to that capital which they could be using to grow and create new jobs. In this light, the spirit of the new policy is to encourage job creation via investment over rent-seeking behaviour.

Recommendation: The new policy should ensure that prospective entrepreneurs are able to deduct interest when they tap into their home equity, such as through revolving credit facilities and offset mortgages, to fund start-ups or invest in non-RE business.

- **The new policy should also incentivise the remediation of significant RE defects endemic to Aoteroa New Zealand, namely to remediate leaky buildings, asbestos, and in order to meet the standards of the day to qualify as a healthy home.**

  Issue: These defects effectively limit housing stock, and can cost unwitting Owner Occupiers and First Home Buyers (FHBs) hundreds of thousands of dollars in each instance to successfully remediate. The problem is chronic, and there is zero market incentives to fix the damage, rather only to hide it and try to pass it along to the next unwitting buyer.

  Recommendation: The Government could incentivise remediation by allowing interest rate tax deductibility on the portion of a loan used to remediate properties and/or by offering depreciation for tax purposes on the cost of successful remediation.

- **The Government should be vigilant for unintended consequences of the policy, including monitoring if rents increase or if there are increasing wealth gaps between those that own existing homes vs those that invest into new homes. As well, the Government should measure the policy's success at increasing housing affordability and increasing homeownership in Aoteroa NZ.**

Officials from Inland Revenue may contact me to discuss the points I have raised, if they so require.

Thank you for taking the above points into consideration.

Sincerely,

s 9(2)(a)
[redacted]

PUB-0313

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Sunday, 11 July 2021 11:28:41 PM

Good evening.

Please see below my submission on the proposed changes to real estate taxation.

My name is s9(2)(a) I am a homeowner together with my partner for the house we live in, and I own two other properties which are currently used for long-term rental accommodation. Neither of these properties would qualify as first-home / entry level.

While I support the government's intent to make it easier for people to buy their own house/apartment if they so wish, as well as making quality rental accommodation secure and affordable for tenants, I am convinced that the proposed changes to the interest deductibility on real estate properties are counter-productive to this intent.

Removing interest deductibility for rental properties effectively imposes a tax on a business expense for private providers of rental accommodation. In no other sector are business expenses taxed. E.g. with this change, a business owner could claim more tax on running a liquor store or a vape shop or selling utes run on diesel than on providing long-term rental accommodation.

This introduces a massive contradiction and inconsistency into our taxation system and disintivises owners from turning their properties into long-term accommodation. E.g. if an owner uses their property as a home-office for their business, as a hotel or B&B or Airbnb they would be taxed less than if they rented out the property long-term. For companies that operate multiple types of businesses, this will also incentivise them to shift their loans to other types of business in their portfolio to be able to offset the interest expenses. This all creates administrative complexity and contradiction, with resulting challenges to ensuring compliance.

As this proposed change also increases costs and uncertainty for private accommodation providers, long-term it will disincentivise property owners from investing into upgrading/improving their properties and also encourage them to raise rents. This does not assist tenants in being able to get on the property ladder or enjoy maximum quality of rental accommodation.

With the current total shortage of residential properties to purchase or rent, private accommodation providers continue to play an important role in maintaining supply of suitable properties. Therefore, focussing on dicentivising private providers is unlikely to benefit renters or first-home buyers.

Instead, to make home ownership more accessible for first-home buyers and improve quality of tenure for tenants, I propose the following:
- Provide incentives for private accommodation providers to secure long-term tenancy contracts
- Provide incentives for private accommodation providers to ensure maximum occupancy for their properties
- Provide zero-interest loan schemes for improvements and maintenance of rental properties
- Provide incentives for current private providers to add build-to-rent new developments to

their portfolios
- Provide increased support for first-home buyers, especially those looking to get into new builds or apartments
- Most importantly, focus on creating sufficient numbers of social and affordable housing to address the supply insufficiency in the housing market

Kind regards
s 9(2)(a)

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright- line rules
Date: Sunday, 11 July 2021 11:40:00 PM

To whom it may concern,

SUMMARY
- I disagree with the propose interest limitation rules
- Capital account property holders who are caught with the taxable sale should be able to deduct the interest for the whole period of ownership in the year of sale
- Date of commencement for new build should be from the earliest date possible in the process of developing, and I suggest from date the existing tenant moves out.
- Rollover relief should be included and should be broadened to include LTC elections and all related party transfers, including share transfers. This should also be back dated to 29/3/18

OVERALL – I disagree with the proposed interest limitation rules. It does nothing to help with the supply of housing, and does nothing to achieve one of the governments key housing objectives, which is to ensure "affordable home to call their own". I believe rents will increase over time as more existing rentals are sold to personal house owners.

CAPITAL ACCOUNT PROPERTY HOLDERS – If a long term hold rental property is sold, and is caught by the brightline rules or other taxing provisions, then interest should be fully deductible in the year of sale. The long term hold investor is already paying a large amount of tax if the sale is taxable, and if interest was not an allowable deduction, tax would then be at an unreasonable level and would severely penalize the property owner. If interest was not deductible for a taxable sale, it could see an owner paying more tax then the gain they made.

DATE OF COMMENCEMENT FOR NEW BUILDS– Interest deductions should be allowed from when the tenant moves out from the old property. This should be the first stage in an older rental property becoming a new build. Or the interest should be allowable from when the older property is demolished.

ROLLOVER RELIEF I agree that there needs to be rollover relief now that Brightline has been extended to 5 and then 10 years. This should cover all related party transactions, and the following should receive rollover relief
- Becoming an LTC should also be excluded from a brightline sale, as becoming an LTC can simplify ownership for a Company and reduce unnecessary compliance costs.
- Sole trader or partnership to LTC, Trust, Company or LP
- LTC share changes, between related parties, including to Trusts and between individuals

Roll over relief should also be back dated to 29/3/18 as there are a lot of rental property owners who unintentional have been caught by these very complicated rules

MAKE IT SIMPLE – 143 page of discussion document, shows that these rules are already too complicated and will be an unfair burden on taxpayers to comply with the rules. The new rules need to be simple and easy for all to follow.

--
Kind Regards

s 9(2)(a) [redacted]

Roper Investments (NZ) Ltd - A Licensee of Renovation Franchise Ltd

s9(2)(a) [redacted]

Web: http://www.refreshrenovations.co.nz/

Know someone who is looking to renovate their home? We'd love it if you introduce us.

PUB-0315

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	"Design of the interest limitation rule and additional bright-line rules"
Date:	Sunday, 11 July 2021 11:44:27 PM
Attachments:	NZPIF Submission Interest Limitation and Bright Line Extension.pdf

Submission to the Deputy Commissioner,
Policy and Regulatory Stewardship,
Inland Revenue Department

Please find attached the written response of the New Zealand Property Investors' Federation Inc on the **"Design of the interest limitation rule and additional bright-line rules"**

Please acknowledge receipt.

Kind regards,
s 9(2)(a)

[redacted]

NEW ZEALAND PROPERTY INVESTORS FEDERATION

Proud providers of rental homes.

NEW ZEALAND PROPERTY INVESTORS FEDERATION

Proud providers of rental homes

Submission to the

Deputy Commissioner, Policy and Regulatory Stewardship, Inland Revenue Department

on the

"Design of the interest limitation rule and additional bright-line rules"

July 2021

s 9(2)(a) [redacted]

New Zealand Property Investors' Federation

This New Zealand Property Investors' Federation Inc (NZPIF) welcomes the opportunity to provide feedback on the Design of the interest limitation rule and additional bright-line rules.

Established in 1983, the Federation has eighteen affiliated local associations throughout New Zealand. It is the national body representing the interests of over 7,000 property investors on all matters affecting rental housing.

Our philosophy is to be an industry advocate, which means we take a balanced role in considering the rental industry as a whole, including the requirements, rights, and responsibilities of both tenants and rental property owners.

Industry Background

There are approximately 290,000 landlords in New Zealand. There are no corporate or institutional residential landlords.

There are approximately 603,500 residential rental properties, housing over 1,500,000 tenants[1], with a national median price of $820,000[2].

Private landlords are the largest providers of rental accommodation in New Zealand. 87% of tenants rent from a private landlord or trust.

Most property investors (57%) have been engaged in the business for 10 or more years[3], which dispels the myth that people are investing in property to make a "quick buck". Instead, property investors are using their rental income business as a mechanism for saving for retirement and are professional and committed long-term service/accommodation providers.

There were 22,521[4] people on the Public Housing Register in December 2020.

The rental property industry paid tax on net rental income of $1,444,000,000 in the 2016 financial year[5]

---

[1] 2020 Statistics NZ – Housing in NZ 2020

[2] REINZ Monthly Property Report May 2021 REINZ.

[3] ANZ NZPIF Annual Survey 2006

[4] Public Housing Quarterly Report, December 2020

[5] IRD Data, April 2018

SUMMARY

In March 2021, the Government released housing policies with a goal to encourage more sustainable house prices by dampening investor demand for existing housing stock and to improve the affordability for first home buyers as an attempt to cool the housing market. The New Zealand Property Investors Federation believes that these changes will ultimately increase rents due to the increased costs of providing a rental home and may in some cases cause landlords to delay maintenance of their properties. Any increase in rents, will reduce the saving ability of tenants to accumulate a deposit to purchase their own home. We do not believe that removing the ability to deduct the mortgage interest costs as a deductible expense for rental property providers is the best way to achieve the desired outcome.

Private landlords supply 87% of rental properties to some 1,500,000 tenants. From our research we believe that these tenants will face higher rents to help private rental property providers cope with the increased costs.

The extension of the Bright Line test and the removal of interest charges as a legitimate business expense are not policies that will help more first home buyers into a property. Rents will increase to help pay the additional holding costs, thus making it harder for tenants to save a deposit for a home.

We recommend more time to work out the effectiveness of these changes to achieve the desired goals and an understanding if these changes will do more harm than good as a long-term solution to get more first home buyers into owner-occupier homes. One major impact we believe is that a tiered housing market will be established between properties that can have the interest deductibility claimed and those that can’t, so care will need to be taken that market fragmentation does not occur.

Government departments have had little time to perform impact statements on the effectiveness of these tax changes. It also never had time to establish the unintended consequences of these, especially to house prices and rental prices and ultimately what happens to tenants. We note that policy advisors from IRD, Treasury, and MBIE advised the government not to proceed with this tax change.

NZPIF believes that due to the complexity of these changes and the limited time to get independent finance advise before the next tax returns are due the chances of non-compliance will be high and NZPIF would welcome a delay before implementation.

Although the discussion paper is extensive, the New Zealand Property Investors Federation believes that most questions are best answered by accountants and tax specialists. However, we have asked our members to send in specific situations that affect them individually.

DISCUSSION

As mentioned in the discussion paper, the Governments objectives are to balance several housing, economic, and tax policy objectives. In these discussions, it must be noted that a large proportion of the country rent a property, and now with approximately 22,500 people on the Public Housing Register we need to ensure that any changes which affect landlords, will ultimately affect our customers, the tenants. This includes increases in costs, reduction of supply, and suitability of houses.

<u>Housing affordability</u>

- These tax changes and extension of the bright-line will not make housing more affordable.
- In the short-term property, investors may hesitate to enter the market until the complete legislation is written.
- The expected increases in rent will make it difficult for renters to save for a deposit for their own house. In the meantime, house prices will continue to increase.
- There is nothing in this policy that will reduce the price of houses.
- Information released from Housing and Urban Development implies that 25% of current tenants could not afford to buy their own house. This would also be the case if house prices dropped.
- Private rental providers are not equipped or often not willing to change their strategy from long-term rental to property development.

<u>Housing supply</u>

- With the final legislation unclear and the costs of getting financial advice on how the changes will affect investors, many are hesitant to begin new building projects.
- Many investors' have properties that can easily be subdivided and another house build on the back section. Knowing that this Government can change the rules overnight will create a lot of hesitation to begin such projects.
- Despite new build rental properties being exempt from the new tax, a NZPIF survey showed that many would prefer to invest in commercial property, property syndicates, or shares before building new rental properties.
- Investors are very cautious when considering their next purchase of an investment property.
- Older properties, which are still essential to house people, owner may delay maintenance to help with increased costs.
- With the Bright Line extension, this will create a 'lock-in' effect where the property is not being used to its fullest potential.
- The legislation will favour specific cohorts of landlords due to proposed exemptions ultimately favouring institutional rather than individual rental accommodation providers with significant and potentially adverse social consequences such as building complexes rather than homes. It must be noted that many of the community housing providers lease their properties from private landlords.
- What implications will these policies have when the market changes – boom currently to bust – which is evitable? Research needs to be undertaken.
- It will take years to build more houses – especially with no immigration to help labour shortages.

- Research needs to be conducted into the macroeconomics effects of these policies before implementation.
- The additional barrier put in place from removing the tax deductibility will be another hurdle for new investors coming into the market. This is unwelcome when we have a rental crisis through a shortage of available rental properties.

Efficiency

- The new tax will affect the efficiency of investment allocation as it favours all other investment options over that of existing rental property.
- Rental property that was previously income-producing could now be loss-making due to the higher taxes.

Coherence of tax system

- To single out the business of providing rental properties while allowing other similar businesses to still claim interest as a deductible expense does not seem fair.

Complexity of the tax system

- These rules will be very complex and will take a level of understanding. Individuals will require time to renegotiate financing arrangements without penalty prior to implementation. This will probably include individuals engaging with tax advisors to ensure compliance with the regime.
- There will be costs associated with engaging a tax expert for advice on interest deductibility/ apportionment where in the past these may not have been necessary.
- Tax experts will not be able to provide a standard framework even after the detail is confirmed, as tax liability will be specific to individuals.
- This regime is not fair and equal. It is comprehensive and exempts special interest group.

Interest tax deductibility

- NZPIF is opposed to the removal of interest as a legitimate tax-deductible expense for property investors.
- Interest deductibility is a standard tax provision for all businesses. Claiming that it is a loophole because homeowners cannot claim it is misleading. Homeowners get the untaxed benefit of accommodation while rental property owners get the taxed benefit of rental income, where all the revenue costs of providing that rental should be deductible.
- Our findings suggest that rents will have to increase to help landlords absorb the tax increases and continue to provide rental properties for tenants. This will reduce rental affordability for tenants.
- Higher rental prices will make it harder for first home buyers to save a deposit for their first home.
- People may look at alternative investments rather than property. This will increase demand for the remaining properties and reduce the supply of houses available for tenants to rent, thus increasing homelessness.

- Landlords often do not have the ability to change their investment strategy from providing a rental property to being a developer.
- Mum and Dad investors amount to a large proportion of providers of the 85% of rental homes and have entered the market to help subsidise their retirement. They are not, and often do not, have the ability or inclination to become a property developer.
- To change strategy to a developer requires significant funds, which are not easily to get.
- The definition of a residential home is one that has been the owner's main home for the entire time they have owned it. So, if someone decides to go on an overseas trip, they will not be willing to rent the property out. Instead, they will probably leave it empty. This will not increase housing supply.
- NZ does not have the tradespeople to build houses in mass. The market is beginning to reach full capacity even before these tax changes are implemented.

NZPIF Survey Results

In order to help fill the information gap and provide some insight into what may happen due to these policy changes, the NZ Property Investors Federation (NZPIF) conducted a survey between 29 March and 2 April 2021.

The key outcomes from the NZPIF survey are:

• 69.2% of respondents did not think they would, or hoped they wouldn't, be affected by extending the Bright Line Test.

• Just over 90% of respondents will be affected by disallowing mortgage interest to be used as a tax deduction.

• The average total extra tax per rental property owner is $15,083 per year, assuming mortgage interest rates don't increase. (On average, the respondents owned 5.3 houses each)

• This removal of mortgage tax deductibility will cost respondents an extra $3,140 a year in tax per property, assuming mortgage interest rates don't increase.

• 98% of respondents who bought a rental property in the last two years are affected with a tax increase of $4,542 per year per property, with 78.8% of those investing for 20+ years being affected at a cost of $2,468 per year per property.

• The main way to cope with the tax increase (76.8% of respondents) is to increase or probably increase rental prices. A further 8.9% might increase rental prices.

• The median rental price increase is between $21 and $30 per week.

• 70.3% of respondents do not currently charge tenants full market-level rental prices. Forty percent have rental prices between $5 and $25 under market value, while 30% have rental prices more than $25 pw under market value.

While investors are concerned that large and negative events, such as death, divorce, job loss, serious injury or disease, may force them to sell their rental properties, the majority of respondents hope they will not be affected by the Bright Line extension.
The vast majority of rental property owners will be affected by removing mortgage interest deductibility.

Discussion Document

Chapter 2- Residential property subject to interest limitation

NZPIF would like an additional exemption added. This would include any property that comprises of 3 or more dwellings, that have a single owner with the properties on the one title. This exemption would include properties like apartment blocks or blocks of units which are not normally owner occupier properties. They could be properties that are single or multiple structures however they normally have several residencies under the one roof and are more inclined to be owned by investors. These properties do not compete directly with first home buyers as they are normally expensive to purchase and are larger properties.

Ways of identifying these properties would include:

- Unlikely to be used as a private owner occupier residence
- Configured as separate dwellings or flats.
- Include three or more dwellings on the same title.
- Single title.
- Often are treated differently by council - extra rates charges, waste water, stormwater or water supply surcharges
- Often have specific description on the property title e.g. residential rental flat
- Purpose built as residential units.
- Multi-unit occupancy
- Often larger and more expensive than other properties.

There are significant barriers to convert multi-tenancy properties for owner occupier use. Without separate unit titles and establishing a body corporate the dwellings would not be available as owner occupier units. They typically cannot be converted as of right, being subject to survey, valuation, council consents and a solicitor to separately unit title each dwelling subject to satisfactorily navigating a number of conditions. Depending on the property, council may prescribe additional conditions to bring the property up to an appropriate standard.

The costs to convert can be reasonably high and can make it uneconomic to convert, purely to recover the tax consequence of lost deductibility. And tax outcomes should not be the driver for commercial decisions.

Exempting multi tenancy properties gives investors an asset class to invest in, which is on a level playing field with other types of investment which are deductible. An exemption will further help to take investors away from competing with owner occupiers, furthering the governments' objectives.

Not providing an exemption may impact on the ultimate resale value if the subsequent owner cannot deduct interest. Also, no exemption will likely increase the need to increase the rent in order to recover the additional tax to pay.

Exemptions are considered for student accommodation (halls of residence) and serviced apartments due to their specialised nature. Multi tenancy properties are equally different and merit exclusion in accordance with the government objectives.

Chapter 3 – Entities affected by interest limitation

NZPIF does not believe that Kāinga Ora and its wholly-owned subsidiaries should be exempt from the interest limitation rules. As tax payers, we would like to see the actual costs of this entity functioning and as such, should be treated the same as a private business.

We also do not support any other organisation such as Community Housing Providers, being exempt as this would ultimately hide the correct costs of providing a rental property.

Chapter 8 New build exemption from interest limitation

NZPIF would like to see the new build exemption be for a period of 25 years. This being half of the recognised life of a building. We would like to see this transferred to any owner no matter whether it is an owner occupier or a rental property. To have a differentiation between the two would make two separate housing markets within the one industry. We also believe that this will have practical impacts, for example, if a person develops two properties – one to live in and the other to rent – and lives in the latter while the former is being completed.

Chapter 9 Five-year bright-line test for new builds

NZPIF opposes the extension of the Bright Line Test. The Bright Line was first established as a means of ensuring tax was paid by property traders or flippers who entered the market for quick untaxed capital gains. By increasing the Bright Line test to 10 years will now capture property investors who provide rental homes for tenants and are not speculators. This increase in time can only be explained as a capital gains tax.

The Government has neither the money nor the resource to house all the people who require rental accommodation. Therefore, to increase the Bright Line test to 10 years will be another consideration for those people who wish to supply rental homes. This disincentive to provide rental homes, will reduce supply when we already have a shortage and put pressure on rental prices to increase. By increasing this to 10 years (which is a considerable amount of time) people may find other places to invest their money rather than supply rental homes for a market that is already substantially short of rental homes.

NZPIF would like exceptions for compassionate grounds, such as: relationship separation where the property cannot be transferred between entities, terminal illness and the loss of a job, where the person has to sell before the 10-year period. There is also no main home exemption for homes lived in by a Trust beneficiary only for the Trust principal settlers.

At longer than 5 years, the NZPIF believes a ‘lock-in affect’ takes hold, where the property would be better used for another purpose rather than being held for 10 years.

The NZPIF believe the Bright Line Test should be two years and return to its original purpose as strengthening ‘purchase with intention’ rules for property traders/speculators.

Alternative ways to increase supply:

Changing tax laws will only distort the market and will create more work for lawyers and accountants, however, it will not increase housing supply.

1.Give landowners the tools to increase supply

Our goal should be to swiftly increase the supply of housing. One way of doing this would be to make it easier for people to subdivide where the current infrastructure is in place. By increasing supply, it will drive down housing costs speed up building and discourage speculation. Therefore, we could encourage landowners that have a large section to subdivide or sell off part of their property to developers to build additional houses or build themselves.

At present it takes about 12 months for a house to go from the first consultation with council until the property is finished. To help with the cost of this the councils could offer a loan/subsidy which could put on the rates bill and could be paid off over the next few years.

- **Increases the supply:** There are a lot of large back sections and potential land which could be developed but council fees are extremely high and add to the cost and the risk to a potential subdivider. The average house owner does not have $50,000 to start subdividing.
- **Reduces speculation:** If that property is sold with in the 10-15 year make it so the remaining percentage would have to be repaid immediately. Discourages speculators and investors from taking quick profits.
- **Gives extra money in the bank for elderly who own large, potentially subdividable sections** and smaller sections for them to maintain.
- **Reduces cities encroaching on productive agricultural land.**
- **Spreads the effect on current infrastructure** over the whole city. Reducing the need for new roads, schools and water services.
- **Makes cheaper houses available** to both renters and first-time buyers. Expensive city fringe developments require larger expensive houses for builders to make a profit.
- **Smaller sections are suited to factory built transportable houses**, again a more efficient and cheaper housing.
- **Inner city infill** reduces transport needs and is good for the environment.
- **If a buyer knows there will be an extra on-going charge** on the rates may also help curb the price of sections. But at least the subsidising costs do not end up on the mortgage effecting borrowing ability.
- **Drives down house costs** – transportation to outer city developments is expensive.
- **Speeds up building** – increasing supply

Additional Comments:

- Expensive sections required an expensive house to make it economical for developers.
- Councils would still need to assess which areas the scheme could be implemented due to infrastructure concerns.
- The average number of tenants in a property have reduced over time so larger houses are not required.
- When the council develops new housing land it increases council debt. This scheme is a subsidy/debt to the housing owner direct from Government which can be at very low interest rates even though it is administered by council.

2. Follow the UK model for tax deductibility

If the Government feels compelled to change the laws on rental property mortgage interest as a tax-deductible expense, they should implement the UK model, which limits an interest claim to a 20% tax rate, rather than completely removing it, which is the NZ proposal. The UK system has not reduced supply or increased rental prices to a significant degree, therefore, has not disadvantaged tenants.

3. Changing LVR requirements as, and when required.

We have seen from past experience that by changing the LVR requirements it can speed up or slow down the housing market. This is a low cost and effective way of changing the market and easy to reverse if required.

Final note

New Zealand Property Investors Federation would like to thank the IRD for the extensive work they have done in compiling the discussion paper on the interest limitation rule and the extension of the bright-line test.

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 11:53:07 PM

Please accept this submission in regards to the new tax laws that are being implemented on investment properties

I would like to take this opportunity to request reconsideration of the current proposed definition of "new properties" and "existing properties"

s 9(2)(a) [redacted]

By reclassifying a 'new build' as a property that has received its CCC after 27th March 2021, puts both small investors, like ourselves, and the tenant at a distinct disadvantage. With the proposed interest limitation rule and the reclassification of a 'new build':

- s 9(2)(b)(ii) [redacted]
- [redacted]
- [redacted]

Ideally, all persons in our society would be able to afford to own their own home, however, in the Capitalistic society we live in, this is unfortunately not so. s9(2)(a) [redacted] While our decision benefits us, we were happy that we could contribute to society by increasing housing supply at a fair cost, which we know has been a major goal of this government for all New Zealanders.

s9(2)(a) [redacted] We know what it is like to rent in NZ and we are very conscious of being fair and providing our tenants with a warm, healthy and lovely home to live in at a reasonable cost.

For this submission, we would like to request reconsideration of the definition of a 'new build' to be extended to any property that has had it's Code of Compliance Certificate granted within the last 5 years, at the very minimum. By doing this, we will be able to help grow the housing supply further, continue to provide our tenants with fair and reasonable rent, and not be a burden on the government by continue to provide for ourselves in our retirement.

Thank you for the opportunity to submit and we hope you will take our comments into consideration.
We are happy to be contacted to discuss this further.
Kind regards

s 9(2)(a) [redacted]

s 9(2)(a)

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Sunday, 11 July 2021 11:53:20 PM
Attachments:	s 9(2)(a)

Attached is my Submission,

I am happy for Inland Revenue Officials to contact me to discuss points raised.

Thank You,

s 9(2)(a)

11th July 2021

From: s 9(2)(a) [redacted]

To "C/- Deputy Commissioner, Policy and Regulatory Stewardship

Inland Revenue Department

P O Box 2198

Wellington 6140

Submission on "Design of the interest limitation rule and additional bright-line rules"

Summary:

I am submitting arguments that the "Main Home" or similar exemption should apply to a home purchased by a parent and a child or children where the child or children are living at the address.

The cash flow of such a situation will be significantly affected if not exempt, and the purpose of the purchase is not property investment but assisting a child into home ownership when they would not be able to do so on their own.

I have 3 suggestions:

1. Allow interest deductions where a co-owner is residing in the property.
2. Allow Interest deductions where an immediate Family member is (or Whanau are) residing in the property.

s9(2)(a) [redacted]

[redacted]

3. Allow interest deductions where a legal co-ownership or Rent-to-own agreement on the property is in place. Conditions could be required to be a co-owner for tax purposes. This could include a minimum contribution to the deposit.

Detailed Submission:

The Main Home definition appears to have been developed primarily for the Bright line test exemptions. In this case it was a tax on profit from a sale and did not have a cashflow impact for the period before a sale. Also, last time submissions were last considered on this definition the bright line test was only for 2 or 5 years and that provided an option to hold on until that time was up before selling.

The proposed extension of use of this definition to interest deductibility has even more far-reaching consequences for cashflow. The cashflow calculations made before purchasing are significantly changed by the interest deductibility changes for people who purchased before the policies were announced.

The government has indicated that the changes are aimed at Property investors. Therefore, they are not aiming to target parents purchasing houses for children to live in and eventually own themselves, even if they do not own it themselves until their Parents estate is distributed. This would also impact Rent-to-own agreements which are similar and I do not think the government want to impact. The suggestions below could be updated to include Rent-to-own agreements.

s9(2)(a)

s 9(2)(a) [redacted]

I suggest three options are considered to recognize co-ownership or use by family members a as a reason for continued use of interest deductions, on the basis that the reason for such purchases is not property investment but accommodation of family members and home ownership for the family members.

4. Allow interest deductions where a co-owner is residing in the property.
5. Allow Interest deductions where an immediate Family member is (or Whanau are) residing in the property.
6. Allow interest deductions where a legal co-ownership or Rent-to-own agreement on the property is in place. Conditions could be required to be a co-owner for tax purposes. This could include a minimum contribution to the deposit.

While stifling property speculation is key to government policy aims, I believe that a 5 year bright line test would be better for co-ownership and Family member property residence as

s9(2)(a) [redacted]

[redacted]

in both situations the personal situations of participants can change and bring an end to an agreement.

s 9(2)(a)

s9(2)(a)

PUB-0318

From:	s 9(2)(a)
To:	Policy Webmaster
Cc:	s9(2)(a)
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Sunday, 11 July 2021 11:53:24 PM
Attachments:	SUBMISSION - interest deduction tax changes.pdf

SUBMISSION: Design of the interest limitation rule and additional bright-line rules

---

s9(2)(a) [redacted]
Owner of 1x residential investment property s9(2)(a) [redacted]

The Government discussion document on the design of these new tax rules states “The objective is to introduce the changes as fairly and simply as possible.” I believe the proposals are neither simple nor fair.

1. **I am opposed to the proposed removal of interest deductibility on residential investment property.**

2. **I recommend the proposed definition of “new build” be expanded, particularly in light of the proposed transitional rule.**

3. **I recommend the new build exemption apply only to the early owner and in perpetuity assuming it includes transfers to a trust / LTC / partnership.**

4. **I support Rollover Relief assuming it incorporates a broader definition of new build and all related party transactions.**

1. <u>Removal of interest deductibility</u>
    - As the business.govt.nz website says, **“If you’re a landlord, you’re in business”**. All other business types in NZ are entitled to claim interest on lending as an expense, but many property investors will be excluded from this. Yet they are still required to operate as a business in every other aspect - following regulation, having contracts in place, delivering on obligations to their customers (ie, tenants), etc. This is contradictory and unjust.

2. <u>Definition of “new build” for tax purposes</u>
    - I understand the Government wants to encourage an increase in housing stock. Labour identified a housing shortage in NZ long before March 2021 when these proposed changes were announced. Using 27 March 2021 as the significant date on which to define a new build is arbitrary and random. It disadvantages those of us who added to new housing supply in NZ for the right reasons, prior to there being any tax *advantage* in doing so.
    - I recommend the definition of new build be broadened so that any residential investment property purchase that has increased housing stock in NZ be covered by the exemption, regardless of the date CCC was issued. This is in line with the “early owner” definition in section 8.10 of the discussion document, the rationale explained in the footnote **“...to ensure the first genuine investor is able to benefit”.**
    - Keep it simple - use the discussion document definition as the General Rule, with no restriction on the date of CCC issuance:
        - acquires a new build off the plans (before a CCC is issued for the new build);
        - acquires an already constructed new build no later than 12 months after the new build’s CCC is issued;
        - adds a new build to bare land;
        - adds a complex new build to land; or
        - completes a commercial-residential conversion.
    - Alternatively, if the decision is made for the interest deductibility exemption to apply to new builds for 20 years from 27 March 2021, then it should apply retrospectively to *all* new builds for 20 years (or the balance thereof) from when CCC was issued, for the early owner.
    - At an absolute minimum, the exemption should apply to early owners who acquired a new build during the 12 months *prior* to CCC being issued -- given that the proposed Transitional Rule allows an exemption for those purchasing up to 12 months *after* CCC being issued, even where CCC was prior to 27 March 2021. Buying off the plans, ie, prior to CCC, is the true definition of adding to housing stock.

3. New build exemption transfer
    - I recommend the new build exemption be applicable to the early owner / first genuine investor only, in perpetuity or a minimum of 20 years, and non-transferable to subsequent investors (unless the property is transferred to a trust / LTC / partnership where the economic ownership of the property remains the same - as per Section 10.16). Otherwise the price of actual new builds and new builds with transferable exemptions will be inflated; not helpful for first home buyers.

4. Rollover Relief
    - I support the proposed rollover relief for bright-line and interest deduction exemptions where it relates to transfer of the property to a trust / LTC / partnership where the economic ownership of the property.

Considering the length of the discussion document, I believe the proposals will add unnecessary complexity to the existing rental property tax laws, requiring an increase in time and money spent by investors to ensure compliance. This is in opposition to the “Things to bear in mind” on pages 7-8.

Thank you for your time. I’m happy to be contacted by IRD to discuss.

PUB-0319

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright- line rules
Date: Sunday, 11 July 2021 11:54:31 PM

Hi

I am s9(2)(a) and I recently purchased our first investment property. This is supposed to support our long term financial plans for retirement.

The removal of interest deducatbaility is against standard business practices.

SUMMARY
- I disagree with the propose interest limitation rules
- Capital account property holders who are caught with the taxable sale should be able to deduct interest for the whole period of ownership in the year of sale
- Date of commencement for new build should be the earliest date possible in the process of developing, and I suggest from date the existing tenant moves out.
- Rollover relief should be included and should be broadened to include LTC elections and all related party transfers, including share transfers. This should also be back dated to 29/3/18

OVERALL – I disagree with the proposed interest limitation rules. It does nothing to help with the supply of housing, and does nothing to achieve one of the governments key housing objectives, which is to ensure “affordable home to call their own”. I believe rents will increase over time as more existing rentals are sold to personal house owners.

This also remove confidence in govt policies/ stability.

CAPITAL ACCOUNT PROPERTY HOLDERS – If a long term hold rental property is sold, and is caught by the brightline rules or other taxing provisions, then interest should be fully deductible in the year of sale. The long term hold investor is already paying a large amount of tax if the sale is taxable, and if interest was not an allowable deduction, tax would then be at an unreasonable level and would severely penalize the property owner. If interest was not deductible for a taxable sale, it could see an owner paying more tax then the gain they made.

DATE OF COMMENCEMENT FOR NEW BUILDS– Interest deductions should be allowed from when the tenant moves out from the old property. This should be the first stage in an older rental property becoming a new build. Or the interest should be allowable from when the older property is demolished.

ROLLOVER RELIEF I agree that there needs to be rollover relief now that Brightline has been extended to 5 and then 10 years. This should cover all related party transactions, and the following should receive rollover relief
- Becoming an LTC should also be excluded from a brightline sale, as becoming an LTC can simplify ownership for a Company and reduce unnecessary compliance costs.
- Sole trader or partnership to LTC, Trust, Company or LP
- LTC share changes, between related parties, including to Trusts and between individuals
Roll over relief should also be back dated to 29/3/18 as there are a lot of rental property owners who unintentional have been caught by these very complicated rules

MAKE IT SIMPLE – 143 page of discussion document, shows that these rules are already too complicated and will be an unfair burden on taxpayers to comply with the rules. The new rules need to be simple and easy for all to follow.

Thanks
s 9(2)(a)

From: s 9(2)(a)
To: Policy Webmaster
Subject: Interest limitation rule
Date: Sunday, 11 July 2021 11:57:51 PM

Evening

I disagree with the propose interest limitation rules. Firstly it does nothing to help with the supply of housing, and does nothing to achieve one of the governments key housing objectives, which is to ensure “affordable home to call their own”. I believe rents will increase over time as more existing rentals are sold to personal house owners.

Who exactly is being targeted given 34% of properties are rentals. Of those 80% of landlords own only ONE rental property. 16% of landlords have two or three properties. 1.7% have more than 10 properties. The majority of those mostly affected are mum and dad investors who own one investment property usually to help fund their own retirement so they are not reliant on the government. Flippers, traders and speculators who are claimed to be the focus are completely unaffected by these changes.

--
Kind regards,

s 9(2)(a)

From: s 9(2)(a)
To: Policy Webmaster
Cc: s 9(2)(a)
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 11:59:27 PM
Attachments: s 9(2)(a)

Dear Sir/Madam,

Attached please find my submission regarding the Government Discussion Document on the design of the interest limitation rule and additional bright-line rules, I hope that it receives your full consideration.

Please do not hesitate to contact me via email s 9(2)(a) should you wish to discuss any aspect of this submission.

Yours sincerely

s 9(2)(a)

---

s 9(2)(a)

s 9(2)(a) [redacted]

Design of the interest limitation rule and additional bright-line tests
C/- Deputy Commissioner, Policy and Regulatory Stewardship
Inland Revenue Department
P O Box 2198
Wellington 6140
By email: policy.webmaster@ird.govt.nz

11 July 2021

Dear Sir/Madam

Submission: Design of the interest limitation rule and additional bright-line tests

Thank you for the opportunity to comment on the proposals outlined in the Government Discussion Document released on 10 June 2021.

Given the size and complexity of the document, balanced with work and family commitments, the points raised in this submission are limited to high level/major points that time availably would allow to be explored. There are no doubt many other such points but my intention is to try and highlight fundamental issues that trigger further thinking rather than address all permutations. Hopefully, extension of the issues raised to other aspects of the proposed policies is self-evident.

GENERAL COMMENTS

The intentions of this policy and the Government's housing objectives are laudable, however, I believe that the proposals and specifics of the policy are fraught with complexities and unintended consequences.

Very few, if any, of these consequences are noted in the Discussion Document but should, by rights, be raised in any consultation process. As these issues do not fall under any of the chapters of the discussion document, the brief summary below highlights just a few of these issues.

Taxable "Income" Knock-on Effects

The net result of disallowing interest deductibility is that a rental property owner's taxable income increases without any increase in real income. Real income (cash in the hand) is in fact decreased due to the higher tax bill.

This increase in taxable income has ramifications that go well beyond affecting the rental property investment, especially for lower income earners. I will highlight just three of these.

Consider the following examples all based on the same rental property borrowing of $500,000 at 2.5% interest. The net rents are assumed to be the same in all cases (~$4,000) and the balance of income is made up by salary/wages.

Table 1

Real Income (incl. Net Rent)	Loan Interest	Marginal Tax Rate	Tax on Phantom Income[1]	PIR based on Real Income	PIR due to Phantom Income	Additional Tax on $5,000 Kiwisaver Earnings	Total "New" Tax
$48,000	$12,500	30%[2]	$3,750	17.50%	28.00%	$525	$4,275
$70,000	$12,500	33%[3]	$4,125	28.00%	28.00%	$0	$4,125
$120,000	$12,500	33%	$4,125	28.00%	28.00%	$0	$4,125

1 Since interest is excluded from rental expenses, the taxable income increases by the interest amount – the difference between taxable income and real income is denoted "**Phantom Income**" since this income **is never realised**.
2 Note that while the real income is taxed at a marginal rate **17.5%**, the phantom income is taxed at a marginal rate of **30%** since it pushes the tax payer into the next tax bracket even though **no additional income is actually earned**.
3 In this case, while real income is taxed at a marginal rate of **30%**, the phantom income pushes the marginal rate to **33%** even though **no additional income is realised.**

Observations:

1) Lower income rental property owners are penalised to a greater degree than higher income rental property owners for the same net rental and borrowing. Not only is the absolute increase in total tax higher for someone with a real income of $48,000 but the new tax as a percentage of actual (net) income is substantially amplified for the lower income taxpayer:

Table 2

Real Income (incl. Net Rent)	Net Income after Tax[4]	Total "New" Tax[5]	"New" Tax as a Percentage of Net Income
$48,000	$36,305	**$4,275**	**11.78%**
$70,000	$51,855	$4,125	7.95%
$120,000	$91,955	$4,125	4.49%

2) By removing interest deductibility, a lower income rental property owner (non new-build) now potentially pays significantly more tax on their Kiwisaver earnings since taxable income determines Kiwisaver PIR.
3) In addition to the increased Kiwisaver tax cost, the resulting downstream reduction of Kiwisaver earnings is potentially massive.
4) It is not clear from the objectives of the policy why Kiwisaver earnings of lower income owners of existing rental properties should be taxed at a significantly higher rate than a new-build rental property owner on the same **real** income. Or, alternatively, why new-build owners should be exempt from the increase in Kiwisaver taxation (which is what the proposed policy effectively implements).
5) Non-realised income is potentially taxed at a higher marginal rate than actual income which again affects lower income owners to a greater degree due to the progressive nature of the tax tables. Note that without the effect on PIR, the "new" tax as a percentage of net income for the $48,000 row is still above 10% (the other two rows are not affected by PIR since they are already taxed at 28%).
6) The effects are similar, to different degrees, on taxpayers near other breakpoints in the tax table/system where the removal of deductibility pushes their deemed income into the next bracket while their actual income is unchanged. This not only affects income tax but also any system that is based on taxable income. Since real income is not increased by removal of interest deductibility, this imposes potentially significant outcomes on taxpayers, especially on lower incomes.
7) Removal of tax deductibility in all income cases above will result in the taxpayers having to pay provisional tax. Based on real net rents, the RIT is below the $5000 threshold but the phantom income pushes taxable income above this. This may create a significant number of new provisional tax payers. Despite increased compliance and administration cost, once again, the burden is higher (as a percentage of real income/cash flow) on the lower income taxpayer.

From the above, lower income earners are penalised more by the interest deductibility change than wealthier owners – it is effectively a **regressive tax** and takes more from cash flow critical current investors (lower incomes with most likely more repairs and maintenance on non new-build rentals). I would hope that this is not by design and suggest that rental property income should be treated and taxed as a separate income stream similar to the way that PIE's (Kiwisaver incomes) are currently handled. New-builds could simply qualify for a lower "PIR" rather than having an overly complex system for accounting for interest deductibility.

Real income should determine Kiwisaver PIR, marginal tax rate and other tax trigger points, not phantom income that is never realised.

4 Taxed with interest being non-deductable in accordance with the proposed policy.
5 Includes effects of changes to Kiwisaver PIR.

The Housing Crisis in isolation

The proposals contained in the Discussion Document on the whole do not seem to consider the bigger picture in New Zealand. While house affordably for first home buyers is a significant problem, there are other equally significant or even larger problems that are interlinked with the housing marked and the approach needs to be balanced.

I contend that most rental properties are bought for retirement funding[6] and in light of the increasing burden of the ageing population on Government resources[7], penalising or discouraging this by denying interest deductibility to the extent proposed would seem to be ill-considered, potentially creating an even larger problem down the road.

The policy does not make any distinction between an investor that bought a rental property in 2008 for yield (property values where decreasing at the time) and a speculator. It is unclear how penalising the former by means of interest deductibility changes discourages the latter or enables more first home buyers to enter the market, especially when new-builds are exempt from speculation after 5 years.

The un-signalled and significant step reduction[8] in real income (and cash flow) for existing rental property owners, when major long term investment, saving and life decisions (e.g. furthering education, having children, sending children to University, etc.) have been based on the current system, is unfair and draconian.

A fairer and more reasonable option would be to apply the deductibility change only to property acquired or converted to rental property after 27 March 2021, exempting loans that existed on 26 March 2021 . That way investors can take the tax policies into account in their long term planning **before** committing to the rental property. The tax policy for interest deductibility in the proposal would also be made much simpler.

Alternatively, apply a cap so that existing loans up to a certain amount (e.g. $500,000 in total, not per property) are exempt.

By discriminating against lower income rental property owners as outlined in Table 2 above, the interest policy will lock out the younger generation[9] and make all generations more dependent on state resources.

By concurrently reducing Kiwisaver earnings (higher tax means less is invested), two major retirement funding vehicles are hamstrung, with long term consequences for society and for Government. Ultimately, many taxpayers use rental property to support or enable home ownership and while this may not be a first home, it is part of the same housing framework.

Since the policy to remove interest deductibility substantially reduces cash flow, especially at lower income levels, there must be upwards pressure on rents, thus affecting the cash flow of renters as well. With the rental sector already facing major issues, potentially triggering a widespread rise in rents is a real possibility that affects a large portion of the population. The effects of the policy on this outcome warrant a more detailed discussion, which is provided in a separate section later.

By focusing on first home buyers, the proposed polices (specifically the removal of interest deductibility) have significant adverse effects on at least two other major societal aspects: the rising cost of rents and the rising cost of the supporting an ageing population. There is a wide scope for a better balance between these aspects and first home buyers not considered by the proposed policies.

6 If this is not the case, then the policy should make a distinction for retirement funding property investments.

7 See for example, https://i.stuff.co.nz/national/politics/300350259/treasury-warns-government-debt-is-on-unsustainable-trajectory-but-not-because-of-covid19-spending

8 The four year phase in period for interest deductibility is insignificant compared to the planning horizons involved and is thus effectively a step change.

9 Who generally earn less starting out and are more likely to be highly geared in terms of financing.

Creating a bifurcated market and stratified society

It is unclear from the policy why new-builds have been completely carved out if “speculators” are indeed largely to blame for the housing crisis.

How does a rental property owner that bought a rental property decades ago contribute to the housing crisis (shortage) more than an investor who may now snap up three new-builds with no interest deductibility or capital gains tax implications? Perversely, the policy is more likely to drive the former out of the market than the latter and stimulates demand rather than supply. On this basis, the balance between capital gains tax and interest deductibility is wrong.

Penalising existing rental stock owners presents a real danger of creating a bifurcated/divided market with the associated social ills of a stratified rental sector. Rather, new-builds should be incentivised, for example by means of subsidies or lower interest rates, e.g. the recent ANZ bank initiative[10].

A 20 year house is hardly a "new-build". The period of classification as a new build is too long to stimulate the increase in supply the Government needs since it results in a buy and hold mentality - there is no ongoing incentive to acquire a new-build. If there was a capital gains window, for example, the incentive would be for speculators to keep moving (buying and selling) on to new-builds, stimulating supply (long term investors would still buy and hold).

Allowing new-builds a 5 year (since CC) window of zero capital gains tax would stimulate growth in that sector. “Speculators” would be encouraged to move onto building the next new rental property (or home) within the 5 years and if the window is only available to the first owner after the developer, it will not stimulate runaway prices in the new-build sector. With the proposed new-build policy exemptions the motivation is to buy and hold for 5 years.

Stimulating demand for new-builds with lack of supply will, however, increase prices. First home buyers will now be locked out of new-builds. Since the policy incentivises the purchase of new-builds as rental properties, rents in that sector will also rise accordingly.

As detailed earlier, the interest deductibility policy results in the same real income level being taxed at different effective rates for different individuals - this is discriminatory and inequitable. It is also unclear why new-build owners, who earn the same real income are exempt from effects on Kiwisaver (and possibly other taxable income related benefits) as well as interest deductibility. Again, this is a complex system to implement compared to a capital gains tax with a "new-build" window.

The proposed denial of interest deductibility discourages maintaining, renovating or upgrading of existing rental housing stock since the financing costs of these are no longer deductible. Even if not financed, real cash flows are substantially decreased, reducing the money available to spend on the properties. This is counterproductive in terms of quality rental stock since older properties could be expected to require more repairs and maintenance than new-builds, further widening the market differentiation between these groups.

The only equitable solution is to base income tax on real, actual income for all.

Paragraph 12.24 of the Discussion Document states on new-build exemptions:

“*For example, assume a residential rental property that is a new-build earns $20,000 of net rental income before interest each year, and the interest expense is $21,000 per year. The new-build exemption would allow the $21,000 of interest expense to potentially be deductible each year. However, the rental loss ring-fencing rule would not allow the net rental income to fall below nil each year. This would reduce the benefit of the new-build exemption from a deduction of $21,000 per year to a deduction of $20,000 per year*.”

The new-build exemptions are already extremely generous and will create a severe distortion of the rental and housing markets. Debating a $1000 difference when low income rental property owners face a >10% reduction in actual after tax income demonstrates the inequity this policy creates. This is an overly complex and skewed system.

10 https://www.anz.co.nz/promo/blueprint-to-build/

To put the scale and inequity of the interest deductibility change in perspective, someone earning $250,000 (no rental income) pays $4,200 more in tax due to the recent 39% tax rate change/addition. Someone earning $48,000, including ~$4,000 net income from a rental with a $500,000 loan also pays ~$4,200 in extra tax due to the proposed changes in the Discussion Document (refer Table 1).

The big difference is that the extra tax on the rental property owner comes out of phantom income – income that will never be realised – as opposed to real income for the person earning $250,000. $4,200 represents 2.4% of the high earner's after tax income but it is 11.8% of the low earners after tax income (refer Table 2).

Similarly the existing rental owner is 11.8% worse off than a new-build owner earning the same real income. i.e. the policy reduces their cash in hand by 11.8% relative to the new-build owner. Additionally the new-build owner pays no capital gains tax selling after 5 years. That creates a phenomenal tax differential between people earning exactly the same real income (and exactly the same net rent).

The lower income earner likely has no possibility of ever earning $250,000 on a salary hence aspired to acquire the rental property to improve their lot. Since new-builds will increase in price due to this policy (stimulated demand with limited supply) and existing property prices will reduce or stagnate (the intention of this policy), the owner of the existing property is locked in as selling at loss puts them in a worse financial position. The existing rental property owner had no means of planning for this event as it was unforeseen by most. This is highly inequitable on a basic human level.

"*Complete denial is simple and would maximise the impact on the housing market by most strongly discouraging investments in residential rental property. Denying these deductions could therefore put the most significant downward pressure on house prices of all the options and increase accessibility for first-time buyers*"

Is this really a good long-term housing policy?

By carving out new-builds for speculators, prices (and thus rents) are likely to rise in that sector. So, while this policy may increase first time buying of existing properties it is at the expense of the rental market in that sector and the new build sector. Cash flow is the major issue for rental property owners and they need to survive (at least to the point of sale of the property) which results in increased rents directly due to denial of interest deductibility on existing properties. Additionally, if property prices in that sector are falling, selling would be a last resort.

Why not just allow interest deductibility and have the capital gains taxed at a higher rate[11] for non new-builds? The net tax result is the same but critically, it does not affect cash flow. Disallowing interest deduction but then allowing interest claw back on some sales, ongoing interest deduction on some others and differing capital gains periods, the system becomes even more complex and inconsistent.

Rent sensitivity

With reference to example in Table 2, while rental property owners in higher income tax brackets may be able to absorb the step decrease of 5-8% in total net income, it is unlikely that many lower income taxpayers can afford an ~12% decrease in total net income.

Ultimately this becomes a survival issue as it affects real cash flow and long-term retirement investment returns. In the short term, rents must increase in proportion to the pre-tax increase in deemed income to maintain real cash flow[12].

The ultimate penalty is on renters as the result is a general increase in market rents. It should be noted that all of the required increase goes directly to the Government in the form of additional tax and does not improve the position of the rental property owner at all.

The general equilibrium point will likely be that some of the increased cost will be passed onto tenants and some will be absorbed by the rental property owner but the policies nevertheless directly create significant upwards pressure on rents.

11 This would be largely automatically achieved by application of the current tax tables e.g. a higher portion of the gain is taxed at 39% relative to a capital gain net of clawed back non-deductible interest. New-builds could have a lower rate or tax credit applied.

12 Note that if total net income is reduced by 12%, pre-tax rental income would need to increase by >35% (or 8.75% per year over the 4 year phase in period) in the example to cover this drop in total net income.

The policies, by design, create downwards pressure on prices of existing properties and upwards pressure on new-build property prices. Due to a combination of capital gains tax and higher prices in the new-build market, some investors exiting the existing property market are not able to enter the new-build market.

The net result, again, is increased rents and a reduction in the total number of private rental properties. While first time buyers may benefit, what is the greater societal cost? The Discussion Document does not appear to consider the wider impact on the rental market and focuses only on first time home buyers.

Overall, the policy reduces the ability of existing rental property owners and renters to participate in the wider economy by spending on goods and services and results in heavier reliance on state welfare services. Not insignificant knock-on effects on their own.

The proposed interest rate deductibility policy also significantly increases sensitivity of rents to interest rate changes. Previously an interest rate rise would be damped by a lower tax bill resulting in a lower rent increase being required to maintain cash flow. Under the proposed policies, the tax payment stays the same so the full rate increase must be passed onto tenants to maintain cash flow. Worse still is that, to maintain real cash flow, the rent increase is now based on the post-tax position and is thus substantially higher than under the current system for the same net position of the landlord.

Based on the $48,000 example from Table 1, fully offsetting an increase in the loan interest rate from 2.5% to 3.0% would require a rent increase of ~20% under the new policy of disallowing interest deductions. If deductions are allowed, the increase required for the same net position of the landlord is ~14%. The difference is paid to the Government as tax.

A “watered down” version of the interest deductibility policy (for example capped at 50% deductibility of loan interest) may be a compromise that lessens the adverse effects on renters. Unfortunately, this would not address the significant complexity issues with the policy.

Alternatively, a limit (for example $500,000 lending, in total, not per property) that exempts smaller investors, reduces the knock-on effects, and compliance costs. This potentially also de-risks the housing market by dis-incentivising larger lending and creates some downward pressure on house prices since demand for higher priced properties is reduced.

FEEDBACK ON EFFICIENCY OBJECTIVE

Paragraph 1.5 of the Discussion Document states:

"*Efficiency* The interest limitation measure should not have unintended effects on the efficient allocation of investment. For instance, the measure should not increase after-tax financing costs for other business activities."

The interest deductibility proposal directly (and artificially) increases taxable income which is used to determine Kiwisaver PIR. Consequently lower income earners face higher tax rates on their Kiwisaver earnings which potentially affects downstream earnings significantly. In general it reduces disposable income which curbs investment elsewhere.

FEEDBACK ON COMPLEXITY OF THE TAX SYSTEM

The proposed interest deductibility policy is exceedingly complex with significant unintended consequences and certainly does not meet the "*Complexity of the tax system*" objective.

Surely the same housing objectives could largely be achieved in much simpler ways, for example, by mandating a more restrictive LVR on lending for existing properties? Deductible interest would be automatically be reduced but without the knock-on effect on existing rents.

Taxing capital gain (on realisation) avoids the complexity and knock on effects on taxable income, cash flows and rent raises. A differential tax rate or a gains tax free window (say first 5 years from CC) for new-builds would certainly encourage investment in new-builds.

"...no deductions would be allowed, as a rough offset for the benefit of capital gains not being taxed"

If the intention is to tax capital gain, then why not just tax capital gain directly rather than via an overly convoluted policy with significant knock-on effects?

A simple capital gain tax (corrected for inflation) is equitable, consistent and does not result in complex interest deductibility issues that affect real cash flow on an annual basis (i.e. a tax on non-realised income). It makes more sense to continue to allow interest deductibility as a legitimate expense and tax capital gain on sale – the end result is the same as offsetting interest against capital gain anyway.

Not only do the proposals significantly complicate the tax system but also the day-to-day lives of rental property owners.

FEEDBACK ON HIGH WATER MARK PROPOSAL

Revolving Credit Facilities

The high water mark also needs to take account of non-rental property related deposits made to revolving credit facilities **prior** to 27 March 2021. For example, if a taxpayer deposited a $100,000 inheritance into a $500,000 facility in February 2021, the nominal high water mark (drawn down amount) would be deemed to be $400,000. If $50,000 is withdrawn in December 2021 for personal use, the balance becomes $450,000 but only $400,000 counts for interest deductibility against the rental property.

Had the taxpayer deposited the inheritance in a separate account in February, the revolving credit facility balance on 27 March 2021 would be $500,000 (high water mark) and would remain $500,000 after the December 2021 withdrawal hence the full $500,000 counts for interest deductibility.

The loan amount (high water mark) should be the same in both cases and thus personal deposits into the revolving facility prior to 27 March 2021, which could be substantial, need to be taken into account in determining the high water mark.

Given that these deposits are likely to be sporadic and typically many small amounts, tracking these back over the life of the facility is insurmountable in most cases. Again, the simplest would be to allow existing loans to continue being deductible.

Non-mortgage Loans

Not all loans used to finance rental properties or associated expenses are bank loans (mortgages). Many non-mortgage loans accrue interest on existent lending (e.g. credit cards, short term loans or private loans). Compound interest is captured under the high water model as new lending when it is clearly associated with the original loan and not "new lending".

Compound interest likely affects lower income earners more than wealthier investors who can access bank mortgages more easily due to higher income and collateral. If this discrimination is not intentional, more complexity is required in the policy/regulation to deal with this issue.

PROPOSED POLICIES EFFECTIVENESS IN MEETING THE HOUSING OBJECTIVES

In summary, in terms of meeting the stated objectives, the proposed policies - particularly the denial of interest deductibility policy - fall short:

"Ensure that every New Zealander has a safe, warm, dry, and affordable home to call their own – whether they are renters or owners"

By creating upwards pressure on rents in both existing and new-build properties, the proposed policies fail the affordability objective for renters.

By significantly reducing the cash flow for owners of existing rental properties, limiting funds for expenditure on maintenance and upgrades, the proposed policies defeat the *safe, warm, and dry* objectives for renters in existing properties. Due to the differential treatment of new-builds creating a stratified rental market, lower income renters may be locked into existing properties.

"Support more sustainable house prices, including by dampening investor demand for existing housing stock, which would improve affordability for first-home buyers"

While the proposed policies may achieve this objective to some degree, it is at considerable expense to other stakeholders (particularly renters) in the housing market. Rents for both existing and new-build properties face significant upwards pressure directly as a result of the proposed policies.

Many potential first home buyers are renters before they save enough money to buy. Increased rents would reduce their ability to save.

By carving out new-builds, the policies do not reduce overall demand or create new supply, they simply create a bifurcated market. Since the supply of new-builds is smaller than the total supply yet investor demand is undamped by the new-build exemptions, new-builds will become "unaffordable" to first home buyers (and lower income renters).

"Create a housing and urban land market that credibly responds to population growth and changing housing preferences, that is competitive and affordable for renters and homeowners, and is well-planned and well-regulated"

As elaborated above, the policies create a bifurcated housing market in terms of both house prices and rents, decreasing new-build affordability for both renters and homeowners while increasing rents and/or reducing living standards for renters in existing properties. On this basis, the policies to not appear to meet the "well-planned" objective.

Increasing demand due to population growth can only be matched with increasing supply and new-build exemptions result in an overall policy effect that does not drive up supply or reduce overall demand.

This submission consumed considerable "family time" to prepare and I hope that it receives your full consideration.

Please do not hesitate to contact me via email s 9(2)(a) should you wish to discuss any aspect of this submission.

Yours sincerely

s 9(2)(a)

From: [redacted] s 9(2)(a)
To: Policy Webmaster
Subject: Design of interest limitation rule and additional bright-line rules
Date: Sunday, 11 July 2021 11:59:42 PM

Hi there,

Please my feedback on the recent proposed govt changes to tax deductibility and bright line test changes.

SUMMARY
- I disagree with the propose interest limitation rules
- Capital account property holders who are caught with the taxable sale should be able to deduct interest for the whole period of ownership in the year of sale
- Date of commencement for new build should be the earliest date possible in the process of developing, and I suggest from date the existing tenant moves out.
- Rollover relief should be included and should be broadened to include LTC elections and all related party transfers, including share transfers. This should also be back dated to 29/3/18

OVERALL – I disagree with the proposed interest limitation rules. It does nothing to help with the supply of housing, and does nothing to achieve one of the governments key housing objectives, which is to ensure “affordable home to call their own”. I believe rents will increase over time as more existing rentals are sold to personal house owners.

CAPITAL ACCOUNT PROPERTY HOLDERS – If a long term hold rental property is sold, and is caught by the brightline rules or other taxing provisions, then interest should be fully deductible in the year of sale. The long term hold investor is already paying a large amount of tax if the sale is taxable, and if interest was not an allowable deduction, tax would then be at an unreasonable level and would severely penalize the property owner. If interest was not deductible for a taxable sale, it could see an owner paying more tax then the gain they made.

DATE OF COMMENCEMENT FOR NEW BUILDS– Interest deductions should be allowed from when the tenant moves out from the old property. This should be the first stage in an older rental property becoming a new build. Or the interest should be allowable from when the older property is demolished.

ROLLOVER RELIEF I agree that there needs to be rollover relief now that Brightline has been extended to 5 and then 10 years. This should cover all related party transactions, and the following should receive rollover relief
- Becoming an LTC should also be excluded from a brightline sale, as becoming an LTC can simplify ownership for a Company and reduce unnecessary compliance costs.
- Sole trader or partnership to LTC, Trust, Company or LP
- LTC share changes, between related parties, including to Trusts and between individuals
Roll over relief should also be back dated to 29/3/18 as there are a lot of rental property owners who unintentional have been caught by these very complicated rules

MAKE IT SIMPLE – 143 page of discussion document, shows that these rules are already too complicated and will be an unfair burden on taxpayers to comply with the rules. The new rules need to be simple and easy for all to follow.

Cheers,
[redacted] s 9(2)

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright- line rules
Date: Monday, 12 July 2021 12:04:37 AM

To whom it may concern
s 9(2)(a) I am quite concerned by the proposed changes that I am reading about. I would like to clearly state that there are many factors, but for me the main issues include:

- that in its current state it is a 143 page discussion document; it shows that these rules are already too complicated and will be an unfair burden on taxpayers to comply with the rules. The new rules need to be simple and easy for all to follow. My accountant is already reviewing this and trying to make sense of it all. If a fully qualified accountant, with specialism in property, is finding it time confusing and unclear, what hope have the general population/Mum and Dad property owners have to understand it?
- I disagree with the proposed interest limitation rules. It will do nothing to help with the supply of housing, and do nothing to achieve one of the governments key housing objectives, which is to ensure an "affordable home". I believe if this is not stopped, rents will keep increasing even more than what people can afford. It will mean more social service interventions and bring a greater cost to the state. I know that members of my family, and extended family, are facing this, and are in no way able to afford to purchase a home. This isn't the way to help them into their "own homes".
– If a long term hold rental property is sold, and is caught by the brightline rules or other taxing provisions, then interest should be fully deductible in the year of sale. The long term hold investor, which statistics show to be in the majority, is already paying a large amount of tax if the sale is taxable, and if interest was not an allowable deduction, tax would then be at an unreasonable level and would severely penalise the property owner. These current property owners are supplying accommodation to those without homes. Surely you can see that? If interest was not deductible for a taxable sale, it could see an owner paying more tax then the gain they made. Are you not worried that housing prices, and rent, will go up further, if landlords are to factor this in or worse, forced to sell?

Hoping for a more concise and strategic approach to this housing crisis.

Regards
s 9(2)(a)
--

From:	s 9(2)(a)
To:	Policy Webmaster
Cc:	s9(2)(a)
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Monday, 12 July 2021 12:21:38 AM

Subject line – Design of the interest limitation rule and additional bright-line rules

Executive Summary

- I disagree with the proposed rules on interest limitation.
- Property owners who are taxed as a result of the bright-line rules, should be able to deduct interest for the whole period of ownership in the year of sale.
- Renovation and remedial work to bring the property to a habitable standard and/or bring the property into line with Healthy Homes Act and/or which adds additional living space (eg an additional bedroom) should be included in the exemption.
- The date of commencement from new builds should be from the moment an older property becomes a new build.

My Interest in this Matter

s9(2)(a). I have been a rental property owner since 2015 and have been a long-term renter myself for many years. My partner and I provide s rental properties in s9(2) and we pride ourselves on ensuring our homes are of a high standard and are well-maintained. We educated ourselves before becoming property owners and are committed to our rights and obligations as landlords.

Detailed Feedback

Interest Limitation Rules. I disagree with the proposed interest limitation rules. This change will not have the desired effect of ensuring 'affordable homes' and will in fact have many unintended consequences.

Increased costs to landlords will only result in rents increasing, and/or landlords selling up, removing much-needed homes from the rental pool.

Every other type of business is permitted to deduct the cost of interest as part of their operating expenses. We are in the business of providing good quality rental homes and we don't believe it is fair or reasonable that the interest rules should be different for this sector.

Alternatively, if this rule is to be implemented then it should be applied equally to all providers including Kainga Ora and organisations with charitable status. Otherwise it is unfairly penalising legitimate business owners such as myself.

Interest and Bright-line Sales. If a rental property is sold and taxed under the bright-line rules or other taxing provisions, then interest should be fully deductible in the year of sale.

The property owner is already paying a large amount of tax if the sale is taxable. If interest is not an allowable deduction, tax would be at an unreasonable level and would severely penalise the property owner for providing a rental service for a number of years.

If interest was not deductible for a taxable sale, it could result in the owner paying more tax than the gain they made.

Date of Commencement for New Builds. Interest deductions should be allowed from when the tenant moves out from the old property. This should be the moment an older rental property becomes a new build.

Alternatively, interest deductions should be permitted from the date the older property is demolished.

Renovation and remedial work. Renovation and remedial work to bring a property to a habitable standard and/or bring the property into line with Healthy Homes Act and/or which adds additional living space (eg an additional bedroom) should be included in the exemption.

For example, s9(2)(a) [redacted] and I purchased an uninhabitable home that had been abandoned for 8 years, and fully renovated it to a very high standard, far exceeding the Healthy Homes Act before it had even been suggested. This renovation cost approximately s 9(2)(b)(ii) [redacted]. It would simply not have been an option for us under the proposed new rules.

We are committed to providing good quality, warm, dry and well-maintained homes for a fair price and the proposed changes severely limit this. Given the severe shortage of rentals and indeed social housing, it seems incredibly short-sighted that these proposals are even being considered.

Final Comments

s 9(2)(b)(ii) [redacted]

Bear in mind that there are many situations where people will always require long-term rental accommodation rather than entering into home ownership.

The impact of the proposed changes would be a double-whammy on top of the recent RTA changes (which make it harder for tenants to find a rental home when they have even the slightest blemish against their record).

The proposed changes would have many undesirable consequences for the country as a whole. I urge you to listen to and take on board the feedback from those at the coal face of the rental property industry.

Yours sincerely,

s 9(2)(a) [redacted]

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright- line rules
Date: Monday, 12 July 2021 12:25:43 AM

SUMMARY
- I disagree with the proposed interest limitation rules.
- Capital account property holders who are caught with the taxable sale should be able to deduct interest for the whole period of ownership in the year of sale
- Date of commencement for new build should be the earliest date possible in the process of developing, and I suggest from date the existing tenant moves out.
- Rollover relief should be included and should be broadened to include LTC elections and all related party transfers, including share transfers. This should also be back dated to 29/3/18

OVERALL – I disagree with the proposed interest limitation rules. It does nothing to help with the supply of housing, and does nothing to achieve one of the governments key housing objectives, which is to ensure "affordable home to call their own". I believe rents will increase over time as more existing rentals are sold to personal house owners.

CAPITAL ACCOUNT PROPERTY HOLDERS – If a long term hold rental property is sold, and is caught by the brightline rules or other taxing provisions, then interest should be fully deductible in the year of sale. The long term hold investor is already paying a large amount of tax if the sale is taxable, and if interest was not an allowable deduction, tax would then be at an unreasonable level and would severely penalize the property owner. If interest was not deductible for a taxable sale, it could see an owner paying more tax then the gain they made.

DATE OF COMMENCEMENT FOR NEW BUILDS– Interest deductions should be allowed from when the tenant moves out from the old property. This should be the first stage in an older rental property becoming a new build. Or the interest should be allowable from when the older property is demolished.

ROLLOVER RELIEF I agree that there needs to be rollover relief now that Brightline has been extended to 5 and then 10 years. This should cover all related party transactions, and the following should receive rollover relief
- Becoming an LTC should also be excluded from a brightline sale, as becoming an LTC can simplify ownership for a Company and reduce unnecessary compliance costs.
- Sole trader or partnership to LTC, Trust, Company or LP
- LTC share changes, between related parties, including to Trusts and between individuals

Roll over relief should also be back dated to 29/3/18 as there are a lot of rental property owners who unintentional have been caught by these very complicated rules

MAKE IT SIMPLE – 143 page of discussion document, shows that these rules are already too complicated and will be an unfair burden on taxpayers to comply with the rules. The new rules need to be simple and easy for all to follow.

Hoping our voice is heard

Kind regards,

PUB-0326

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	[SUSPECT SPAM]Design of the interest limitation rule and additional bright-line rules
Date:	Monday, 12 July 2021 12:49:47 AM
Attachments:	s 9(2)(a)

Hi there,

Please find attached my submission on the proposed new tax rules.

You can contact me on s 9(2)(a) in relation to this submission.

I wish for my name and other identifying information to be withheld as I am in individual.

Please acknowledge receipt,
s 9(2)(a)

General comment

Some people need to rent. Government needs to ensure a suitable number a type of rentals are available. Government is making little progress in providing housing for all tenants themselves, and government's focus is on lower income tenants; there are other tenants in the market who cannot/do not want to buy a house who need to be catered for.

While we all agree that house prices need to stop increasing, we also need to ensure that rentals are available for those who need them. By focusing solely on reducing the number of 'investors' (code word for landlords) owning properties the assumption is made that all those renting can either be served by the state or want to buy a house. This is not close to the current state.

Hence, we need to support ongoing private rental provision until the government is able to take over this function, while reducing housing pressure.

We are one of many 'investors' who rent one house as well as owning our own. We have owned this house for a number of years, and had intended to keep it for many years to come. We rent to a lovely family s9(2)(a) [redacted] have settled into the neighbourhood and want to stay long term. s 9(2)(b)(ii) [redacted] s9(2)(a) [redacted]

When the interest tax rules change, owning the house will cost us s 9(2)(b)(ii) [redacted]. We will need to either recover these costs through rent, hope of capital gains s 9(2)(b)([redacted] or pay for them out of our own pockets. This last option will involve thinking about the cost to our family. Selling the house will result in making our long-term tenants homeless.

When we purchased this house, it was from s9(2)(a) [redacted] who had lived in it for many decades. It was in a poor state (peeling paint, mouldy walls and ceilings, and disintegrating carpet). We made the house liveable, and have since rented it to s9(2)(a) [redacted] Now we will be penalised for adding this house to the rental market. If we sell it in the next two years before the interest changes are significant, s 9(2)(b)(ii) [redacted] A purchaser will either be a relatively well-off homeowner upgrading or an investor looking only to get capital gains/land bank (see rental shortfall above, which means it's not possible to make money as a rental for many years to come).

Without the proposed tax changes to the treatment of interest, we would continue to hold this property as a quality rental for many years to come. The ownership and rental of this property will have no bearing on the property market. It is providing housing for a family who are not being excluded from the market due to having this house as a rental, and who would otherwise have difficulty finding an alternative rental.

It is clear that our ownership of this house has not and will not contribute to house price increases.

Chapter 2

It will be very difficult to determine a fair way to split interest costs in properties which have both residential and non-residential income. If the proportion of income is used, this may distort the property owner's charges (eg inflate non-rental income to reduce the proportion of interest not able to be claimed). This could have impacts on sectors not intended, such as commercial rents. Splitting the interest costs based on the physical areas is unlikely to represent the accurate financial split. Either allowing full deductions or no deductions in such situations will also create distortions, possibly resulting in residential dwellings being repurposed as commercial, without a need, to enable interest deduction claims. For example, removing a full kitchen in a dwelling above a shop and bundling the upstairs into a slightly higher rental for the entire commercial premise with 'staff space' upstairs may well result in greater income with the ability in this scenario to claim all interest as a business expense. This would have the effect of incentivising the removal of a dwelling unit from residential rental supply while not providing any purchasable dwelling.

The proposed test in the consultation document is vague. It does not explain whether the 50% refers to land area or to building area. It is unclear how to identify which parts of a property will count as commercial. On most properties, some of the property's area is multi-use, and some is not 'used' (eg bush or wetland areas on a property).

The description of this part of the proposals includes the use of the phrase 'land use', although the examples all refer to the areas of buildings on the land. This makes the proposals very unclear. The land has value and is used for either residential renting purposes (eg an access path or car parking), business purposes (eg car parking or a loading bay), or nothing (eg bush). How will land use be taken into account? What about where land use is unclear or used for different purposes in different circumstances? The calculation quickly becomes complicated.

This highlights the issues with the entire proposal.

It may make most sense to go with the proportion of building floor area for each type of use.

Home owners renting out part of their home

I support excluding income from homeowners renting out part of their house. Making it more difficult to do this will only make it harder for home buyers to afford to purchase a home. However, differentiating homes purchased as a main dwelling with a 'minor' or second dwelling on the property creates a distortion in the market again. Purchasing a two-dwelling property as a first home and using some of the income is a great way of people getting into the market and also supplying accommodation for a renting family unit. We wouldn't want to discourage people from renting second dwellings, or reconfiguring them to be not separate dwellings (eg removing an oven from a basement flat and allowing a flatmate to live there rather than keeping the separate dwelling unit as is). s 9(2)(a) [redacted] Do we really want to discourage this type of purchase?

Perhaps exempting multiple dwelling units in situations where there is one title and the owner-occupier has one of the dwellings on the title as their main home would be a better approach.

If there is some aversion to this approach, and a preference to have investors only buying such properties, then perhaps exempting those for whom the purchase is a first home could be considered.

Short term accommodation and serviced apartments carve-out

I support ensuring the carve-out is suitable. In particular, the question about whether an accommodation unit could be converted to a full dwelling would be challenging to manage. The most important factor is whether it is legal to convert the accommodation to a dwelling (eg council rules may say that a granny flat can only be part of a single dwelling and not converted to an independent dwelling).

We also don't want to unreasonably reduce the range of short-term accommodation available (eg boutique hotels have a market we want to encourage of high-value tourists, but often are not at the scale of a hotel).

The answer could lie in documented previous use, and/or use of similar properties.

In all cases, there is a disincentive for people to provide rental accommodation, likely increasing pressure on supply without increasing the number of dwellings for sale.

This all suggests that renting additional dwelling units should be encouraged generally, leading to a preference for a broad carve-out.

Chapter 4

I support allowing the refinancing of pre-27 March 2021 loans to be exempt. Doing otherwise creates incentives for banks to create unusual finance products.

People should have the option to stack or trace as best for their personal outcome. If these rules were known at the time, people would have been able to make good business decisions about which loans to pay capital off. As these rules are coming in out of the blue, people should be able to go back and apportion payments as best suits the business outcomes for them.

Treatment of interest on disposal (Chapter 5); revenue account

Option A – I do not agree with this option. Given the types of properties which are purchased and on-sold for profit are often those which need significant renovation, they are frequently not of interest to first home buyers. So an increase in cost (less tax deduction) may well decrease the purchase price of this type of property, and possibly increase the sale price. First home buyers are likely to end up missing out as they don't usually feel confident to take on significant renovations, and are likely to be in the market for houses with completed renovations. Hence this approach may well have a detrimental impact on first home buyers, although it may help the overall statistics.

Options B and D are the fairest as option C results in having to use post-tax income to pay real costs. When buying and selling, it is reasonable to be able to claim costs pre-interest. While having to pay tax on money before paying for interest costs may reduce the number of investors in the market, it may not have the impact of reducing house prices. The assumption that reducing the number of investors will itself increase the number of home buyers purchasing a house is not sound. It makes many assumptions about the impact on prices of the lower number of investors, and the type of purchasers who will be int eh market. Many current renters are not currently interested in/able to buy a house. On this note, option F also seems reasonable.

Given the current ring-fencing of rental losses to off-set future rental income only, it would be logical to ring-fence loss on disposal too.

Chapter 6

It seems entirely unnecessary to make any exemption for developers. Making an exemption for developers essentially enables the status quo to continue. Under the status quo, developers are not building enough houses for NZ's needs. This is a mix of aiming for high return houses (too big and expensive, never going to improve affordability, and aimed at wealthy buyers only). Under the status quo, disincentives to build seem to be related to building consent, resource management, and labour and materials shortages.

Additionally, assuming a reasonable option is taken to recovering interest losses as per chapter 5, developers are able to recover interest costs upon the sale of properties. Recovering tax on disposal will encourage developers to complete developments and sell houses.

The real question is how to incentivise developers to build smaller affordable homes with first home buyers in mind. The tax treatment of interest will not incentivise this.

If you 'develop' for the purpose of renting, then you should be exempt from the interest deduction exclusion by the 'new build' provisions. If you are solely developing land, it would seem that this is not a residential property nor provides any benefit in the housing market until it is sold as a residential section, or built on. Again, it makes more sense to use these other provisions.

The creation of this exemption creates significant complexity for no clear benefit. It looks as thought government is pandering to big business interests.

The example used of Aroha's one-off build for rent does not appear to meet the criteria. During the build there is no rentable unit. As per current tax rules, you cannot claim costs before there is an available rental unit. When the unit is rentable, you confirm the borrowings needed to create it. This should include build costs and other costs such as interest and power and non-build fittings such as curtains. If you have borrowed for these costs, you can charge the interest of the borrowings against the rent once it's a rentable unit, presuming you meet the new build exemption.

Again, the remediation aims of increasing housing supply int eh long-term could also be met with the ability to claim interest costs on sale (if the property is sold when remediation is complete), or the new build exemption (if the property is kept and rented). No development exemption is needed.

New build exemptions

I support the measures to encourage new builds.

Regarding the 'simple new build' test which allows for a replacement dwelling to be built without adding to the housing stock and still qualify for the benefits as though it did, I do not support this option. It looks like a loophole which will be instantly exploited by many people. In reality it is not difficult to produce an old council permitted plan or other council document showing how many separate occupied units are permitted on the site, or how many kitchens are in the property. Otherwise real estate listing information can be shown to demonstrate that an increase to supply has been made.

Surely a simple declaration could be made about increasing supply to access the benefits. Owners will be required to keep records demonstrating the increase in supply at the time of the build.

A declaration will restrict the loophole based on self-declared information, which can't possibly be worse than the proposal, and will have a low administrative cost.

We shouldn't bend over backwards to provide for remediation work. If houses are to be liveable, then maintenance needs to be completed. The tenancy standards put housing standards at a high level, more so than for houses being sold for private use. If the aim is to encourage sale for personal use, then providing for remediation work to be exempt from the interest rules will incentivise people to keep properties as rentals rather than selling. Of course, there is no guarantee when selling whether an owner-occupier or landlord will purchase the property. If there is an ability for the new build advantages to transfer with a change of ownership, then again the new build advantages will continue to incentivise landlords to renovate and keep properties. I think that remediation should be excluded.

You have asked a question about uninhabitable housing. Councils have the ability to declare a house uninhabitable (eg because of earthquake proneness or being unsanitary). Such a council declaration could be used, although this is a fairly high bar.

Chapter 8

I don't think the interest deductibility exemption should apply in perpetuity. This will distort the housing market and mean landlords are incentivised to hold properties rather than turning them over. A new build is not a new build forever, and the benefit it brings in terms of an extra housing unit will not last forever.

I don't think that it is clear that longer/greater ability to deduct interest will increase housing supply. Most developers are in the business of building and selling, not renting. What the deduction will do is likely increase the price of new build qualifying purchases compared to other similar properties. This may make it more difficult for owner occupiers to purchase a new build.

I think that deductions should apply for a set period from the date of CCC. I suggest this date should be approximately 10 years. It seems highly unlikely that a longer period than this will have a greater impact on increasing supply.

Limiting the new build exemption in timeframe should be sufficient to encourage new builds but not give excessive encouragement to keeping properties for long periods. It wouldn't seem necessary to further limit the exemption in relation to whether the house had ever been occupied by an owner-occupier. IN addition, it is not reasonable to expect a landlord to be able to confirm all occupancy of a property before they purchased it. One owner could have lived in the property for a period during ownership but had it rented for most of the time. How would a subsequent owner ascertain this for a period of up to 20 years? I do not think the continued investment rule is practical or necessary.

I do support apportionment. It is good to convert over-sized homes into smaller dwellings. Discouraging this may result in incentives to unnecessarily destroy and rep[lace dwellings rather than renovate them. There is no need to incentivise waste like this. For example, rather than renovating to create an upstairs/downstairs two-flat situation, you could tear down toe existing house and build two side-by-side townhouses.

From:	s 9(2)(a) [redacted]
To:	Policy Webmaster
Cc:	s9(2)(a) [redacted]
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Monday, 12 July 2021 1:07:27 AM

To Whom It May Concern,

s 9(2)(a) [redacted]

In general, I am opposed to the interest deductibility rules. It is not fair to change the goalposts on people who are trying to provide needed housing for those who will never be able to buy their own home. Investors did their sums under a deductibility regime that is the global norm and many will suffer greatly under the proposals. Most property investors are just regular people on everyday incomes, like me. But, should the proposals become reality, there are some issues that need looking at:

Implementation Dates
The timing of the changes, to occur in the middle of the financial year, will mean far more work when preparing tax returns. It will have a detrimental effect on the accountancy industry and lead to backlogs.

The changes should occur in whole years and coincide with the financial year, in order to facilitate the transition and not make things overly complicated.

In addition, the immediate effective date was very unfair on people who were already in the process of buying a property. For people who had conditional contracts on a property, but no legal reason to back out of the deal, it was very harsh. They entered into the contact under one set of rules, having done their financials, then had to complete the purchase under another, with the purchase no longer making financial sense.

Bizarreness of second buyers yes, first buyers no
There is a bizarre outcome in the discussion documents. It states that new builds are only counted as such for deduction purposes if settles after the March implementation date. However, it also states that secondary buyers of new builds may also claim the deductions, if bought less than 12 months after completion. This creates a wholly unfair and contrary outcome in the case of an investor who (for example) had a house built that was completed in February 2021. Although this person has done exactly what the government is trying to encourage, the new build is not tax deductible. However, if they sell within 12 months, the second owner, who arguably is buying existing housing, gets the deductibility. This is absurd and punitive towards those who built a rental property immediately prior to the announcement.

Child support
Child support payments are calculated on the parent's taxable income. In the case of a property investor who pays child support, this law change will have the effect of making that income look inflated on paper.

For example, a parent paying $25000 pa on mortgage interest on a rental property will suddenly find that sum added to their taxable income and child support assessed on it, even though they don't receive that money – it goes direct to the bank.

This would be grossly unfair. The government would need to ensure that legislation protects these people by excluding mortgage interest payments on rental properties from the taxable income for child support calculations, as it isn't really income. It's a business expense.

Property bought specifically for development
In terms of what constitutes a 'new build' I am pleased that it has been acknowledged that extra/new housing is created in various ways, not just building from scratch.

However, it seems to me that there are currently gaps in the proposals. For example, if a house is split into two flats, interest on the entire house will be tax deductible. This makes things very tidy and simple for accountancy and taxation purposes, as it is two homes, but one whole and the mortgage security is over the whole.

However, in the case of infill housing, it is unclear. The proposals suggest that the entire property will be deductible until CCC on the additional dwelling is issued. If no subdivision takes place and the original house is not deductible after this date, it creates an anomaly when compared to the previous situation. Apportionment, where there are two dwellings on one title and a common mortgage, would be a nightmare.

s 9(2)(a) [redacted]

[redacted]

Like the house split into flats, it is one whole. Given that the property was purchased for the express purpose of creating new housing, deductibility should be applied to the entire property, for as long as the 'new build exemption' allows. There should not be a distinction and apportionment just because the original house was retained, rather than being bowled and all new ones built.

Given the shortage of tradesmen, building supplies and the pressure on councils, retaining original houses in small redevelopments should be encouraged, not penalised. It also allows housing to come online much faster.

s 9(2)(b)(ii) [redacted]

Brightline extension

The original introduction of the brightline test made sense. Unfortunately, some people who should have been paying income tax on house-flipping profits were slipping through the net by failing to declare their profits. A two-year 'catchall' rule made sure that these people would have to pay their dues.

However, the longer you make it, the more likely you are to catch people who, through unforeseen life changes, are forced to sell. Divorce, death, accident or injury preventing work, redundancy, etc. and unable to continue to top up the mortgage, are all very real possibilities. The longer the brightline test runs, the more likely it is that people will experience calamity during that time. Genuine flippers will not be affected by extending it, at all.

There also needs to be rollover relief. This should cover all related party transactions, such as sole trader or partnership to LTC, Trust, or Company and LTC share changes, between related parties, including to Trusts and between individuals.

Many different sets of circumstances exist and it is important to write legislation that takes this into account, and does not bring about perverse outcomes. Thank you for your consideration of these points, which are just a few.

Yours Sincerely,

s 9(2)(a) [redacted].

From: s 9(2)(a)
To: Policy Webmaster
Cc: s9(2)(a)
Subject: Submission: Design of the interest limitation rule and additional bright-line rules
Date: Monday, 12 July 2021 1:11:03 AM

Executive Summary

- I disagree with the proposed rules on interest limitation.
- Property owners who are taxed as a result of the bright-line rules, should be able to deduct interest for the whole period of ownership in the year of sale.
- Renovation and remedial work to bring the property to a habitable standard and/or bring the property into line with Healthy Homes Act and/or which adds additional living space (eg an additional bedroom) should be included in the exemption.
- The date of commencement from new builds should be from the moment an older property becomes a new build.

My Interest in this Matter

Rental property owner s9(2) and a long-term renter myself. My partner and I s9(2)(a) and we pride ourselves on ensuring our homes are of a high standard and are well-maintained. We educated ourselves before becoming property owners and are committed to our rights and obligations as landlords.

Detailed Feedback

Interest Limitation Rules. I disagree with the proposed interest limitation rules. This change will not have the desired effect of ensuring 'affordable homes' and will in fact have many unintended consequences.

Increased costs to landlords will only result in rents increasing, and/or landlords selling up, removing much-needed homes from a shrinking rental pool. Landlords do not drive up house prices because their aim is to purchase at a price below market value, to allow them to provide a good home at a fair rent without losing money every single week.

Every other type of business is permitted to deduct the cost of interest as part of their operating expenses. s 9(2)(a) we don't believe it is fair or reasonable that the interest rules should be different for just this one sector.

Alternatively, if this rule is to be implemented then it should be applied equally to all providers including Kainga Ora and organisations with charitable status. Otherwise it is unfairly penalising legitimate business owners such as myself.

Interest and Bright-line Sales. If a rental property is sold and taxed under the bright-line rules or other taxing provisions, then interest should be fully deductible in the year of sale.

The property owner is already paying a large amount of tax if the sale is taxable. If interest is not an allowable deduction, tax would be at an unreasonable level and would severely penalise the property owner for providing a rental service for a number of years.

If interest was not deductible for a taxable sale, it could result in the owner paying more tax than the gain they made.

Date of Commencement for New Builds. Interest deductions should be allowed from when the tenant moves out from the old property. This should be the moment an older rental property becomes a new build.

Alternativel
y, interest
deductions
should be
permitted
from the
date the

older property is demolished or removed.

Renovations and remedial work. Renovations and remedial work to bring a property up to a habitable standard and/or bring the property into line with the Healthy Homes Act and/or which adds additional living space (eg an additional bedroom) should be included in the exemption.

s 9(2)(b)(ii) [redacted]

[redacted] iven the already severe shortage of rentals and indeed social housing, it seems incredibly short-sighted that these proposals are even being considered.

Final Comments

s 9(2)(b)(ii) [redacted]

The impact of the proposed changes would be a double-whammy on top of the recently implemented RTA changes (which protects bad tenants and yet makes it much harder for good tenants to find a replacement rental home when they have even the slightest blemish on their record).
The unintended effect of the RTA amendment legislation, which went ahead against the advice of many submitters like myself: Homeless numbers and emergency accommodation requirements/costs are rising rapidly, with the media covering this issue in Rotorua (Stuff, March 11, 2021).

Bear in mind that there are many situations where people will always require long-term rental accommodation rather than entering into home ownership. The vast majority of rental accommodation is supplied through private landlords.

The proposed changes would have many undesirable consequences for the country as a whole.

I urge you to listen to and take on board the feedback from those at the coal face of the rental property industry, in order to avoid setting up a potential train wreck

Kind Regards,

s 9(2)(a) [redacted]

[redacted]

[redacted]

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Monday, 12 July 2021 1:12:28 AM
Attachments: submission interest limitation and brightline rules.docx

---

Please find attached submission.

Kind regards

s9(2)(a)

Coombe Smith One50 Group
Property accountants

s9(2)(a)
s9(2)(a)
s9(2)(a)
www.propertyaccountant.co.nz
s9(2)(a)
Proud founders of One50 Dream Days
Like us on Facebook

Summary

- I disagree with the propose interest limitation rules
- Capital account property holders who are caught with the taxable sale should be able to deduct interest for the whole period of ownership in the year of sale
- Date of commencement for new build should be the earliest date possible in the process of developing, and I suggest from date the existing tenant moves out.
- Rollover relief should be included and should be broadened to include LTC elections and all related party transfers, including share transfers. This should also be back dated to 29/3/18
- The proposed rules are too complex for everyday property investors to understand.

My Details

s9(2)(a) [redacted]

Property investor, trader and developer for last 20 years.

s9(2)(a) [redacted] Accounting firm specializing in property accounting.

s9(2)(a) [redacted]

s 9(2)(a) [redacted]

Overall – I disagree with the proposed interest limitation rules.

The new rules does nothing to help with the supply of housing, which is the key issue. NZ needs more affordable houses. The proposed interest limitation rules are going to force small investors (1-2 rentals) to sell. In general this is going to take away more older properties from the rental market, pushing up rents on remaining rentals. This will negatively impact many renters and make it harder on more everyday New Zealanders.

The proposed changes does nothing to achieve one of the governments key housing objectives, which is to ensure "affordable home to call their own". I believe rents will increase over time as more existing rentals are sold to personal house owners. Personal house owners have less people in their homes compared to rented houses. Say for example that personal homes have on average 2.5 people, vs rentals 3.5. So if 100 homes were rentals, housing 350 people, are sold to personal house that house 250, there is then 100 people out of homes! This has been seen in the last few years with skyrocketing numbers in emergency housing, and huge demand for cheaper community housing.

5.43 questions for submitters – If a property sale is a taxable, then interest should be fully deductible.

- Revenue Account property options – For property traders, interest should be deductible under normal rules, as interest is legitimate business expense and should be treated the same as any other business. This would encourage property developers and builders to continue to build and develop houses, that would improve the supply of houses to the market. To take away interest deductions could make it harder for developers and builders, and restrict the supply of new housing, which could force house prices to increase and also rents to rise.

  If interest was not allowed as a deduction for Revenue account holders, then the end result could be the trader or developer paying more tax than the overall gain they make.

- Capital Account property options – if a property sale is taxable by brightline or other taxing provisions (subdivisions, rezoning, tainting, intention etc), then interest deduction deferred until sale is fair. This would help to improve the supply of housing by allowing capital account property holders some deductions to reduce their tax obligations.
  Allowing capital account property holders an interest deduction, will make it easier for some of these owners to sell properties, which could provide more houses to first home buyers, or more stock for developers, who in turn build multiple houses

  If interest was not deductible for a taxable sale, it could see an owner paying more tax then the gain they made.

<u>Key concept for new builds – when should interest be deductible</u>

I think interest on a new build should be deductible at the earliest possible point. This could be ;

- When existing tenant moves out, or when existing house is demolished. When an existing tenant moves out, this is often the first stage of a property being demolished or removed, and new houses being built on the site.
- Or from when an empty section is purchased

Allowing interest to be deductible from the start, for new builds, will encourage property investors to build more new builds, which will improve the supply of new housing, which will keep house prices down and rents down, helping the majority of New Zealanders

<u>6.30 questions for submitters – chapter 6</u>

Interest for any revenue account holder should be fully deductible

Traders – people who buy run down properties, do these up (renovate the bathroom, kitchen, do insulation, healthy homes items etc) and sell these to long term hold property investors or to home owners. This helps to improve the supply of healthy homes that are warm and dry for occupants. Trading is a business, and interest is a large cost to traders. This should be allowed as a deduction, otherwise they could end up paying more tax than they gain. This would result in less unhabitable and run down properties being renovated up to a standard for New Zealanders to live in

Developers – Generally buy older houses, demolish these and build multiple houses. Developers help to improve the supply of houses by replacing for example one house with 4 new houses or units. Developers need to be encouraged, as more supply with help to keep the cost of houses and rent down. The rules need to be very simple that developers can deduct their interest, as this is a real cost to them

Disallowing interest for developers, or making the rules too complex or hard to interpret could put off developers, and therefore reduce the amount of new housing.
Complicated rules, could also make investors unsure of the rules, and therefore reduce the number of sales for developers, again leading to developers being more hesitant. This is already happening as many possible buyers are unsure of the rules.

7.11 questions for submitters – definition of new build

Overall definition of new build and chapter 8 new build exemption needs to be kept simple so that normal, every day property investors within 1 or 2 rentals need to understand it. 20 page in the discussion document is a lot to process and shows this is already too complicated.

I approve of the extra properties included, and agree complex new builds included in this definition.

8.29 questions for submitters – apportionment rules

I think the new build exemption should also apply to subsequent purchasers. Otherwise potential developers and buyers of new builds might not buy , as they are scared that there may be no market for used properties. This could reduce the housing supply for new builds, if the market gets nervous.

Fixed person for both early owners and subsequent purchaser would be easier for both parties to understand.

Apportionment rules would be fine for properties where there is new and old. This would follow similar current tax rules, and be easy for tax professionals and individuals to work out.

NZ tax rules are based on self assessment. I think it would be fair and reasonable to continue with self assessment, and allow tax payers and their agents to work out what is new and old. If the rules are simple, then this should be fine.

10.45 questions for submitters – rollover relief

Yes rollover relief from the interest limitation rules should be provided for transfers on deaths. This would follow existing tax principles and rules, where the tax treatment continues in the same manner as before death.

10.57 Trustees

There are many situations where the settlor is not a beneficiary. This would be unfair and unreasonable to include this provision.

- A settlor can be a professional, such as a lawyer or accountant. These would not be beneficiaries
- A Trust can be set up by parents for children, where the parents are often not beneficiaries
- These are just two examples, but requiring a Trust to have all the settlors as beneficiaries would be unfair
-

10.73 and other Rollover relief

I agree that there needs to be rollover relief now that Brightline has been extended to 5 and then 10 years. This should cover all related party transactions, and the following should receive rollover relief

- Becoming an LTC should also be excluded from a brightline sale, as becoming an LTC can simplify ownership for a Company and reduce unnecessary compliance costs.
    - Normal companies have large issues with getting capital gains out to shareholders, and current require liquidation which is time consuming and expensive
    - Allowing normal companies to easily become LTC's would decrease the compliance costs for many small investors

- Sole trader or partnership to LTC, Trust, Company or LP
- LTC share changes, between related parties, including to Trusts and between individuals

Roll over relief should also be back dated to 29/3/18 as there are a lot of rental property owners who unintentional have been caught by these very complicated rules.

The intention of Brightline was to catch long term hold investors who were really trading. The following is not a real sale and should get rollover relief for brightline

- Becoming an LTC or exiting LTC regime
- Shares to a Trust
- Shares from Husband to wife
- Personal our partnership to LTC, or to company

There is a huge issue with the current rules, and they are being unfairly applied to "tax grab", rather than for parliament's original intention.

11.30 Interposed entity rules

These should be kept extremely simple. Basically the interest should be claimable, as if the residential property owner had directly taken out the loan.

Ie ABC Ltd has two loans, 1 loan for $500,000 for a new build (deductible), $200,000 for existing property. Instead, ABC is owned by XXX Ltd, and XXX Ltd takes out $700,000 loan – in this case the same $500,000 should be deductible.

12. rental loss ring- fencing

Overall it would be a great chance to fix the ring- fencing rules

Joe blogs owns a rental and makes a $10,000 loss. Joe Blogs receives $10,000 residential rental income as distribution from a Trust. These two should be able to offset each other! This would be fair and reasonable.

With the new proposed rules on interest limitation, it is more important then ever that all rental property losses from a taxpayer should be able to offset rental property gains.

The current rules make it too complicated for tax payers, and compliance costs are too high.

Airbnb and short term accommodation

There is general confusion in the public over whether Airbnb and short term accommodation properties are commercial or residential properties.

With the announcement of the proposed interest limitation rules, there is widespread confusion already. There needs to be very simple and clear rules as to whether short term accommodation properties are commercial or residential.

Make it simple – 143 page of discussion document, shows that these rules are already too complicated and will be an unfair burden on taxpayers to comply with the rules. The new rules need to be simple and easy for all to follow.

LESS IMPORTANT POINTS AND DISCUSSION

4.16 Feedback on refinancing –

Agree that any loan used to refinance an old loan, should continue with the same interest deductions. This makes common sense and would also make compliance easier

It is normal for a lot of residential property investors to swap banks, say from ANZ to Westpac. This is necessary to maintain a fair market, and there shouldn't be restrictions to transfer to a new bank.

If a property investor has an existing residential property , purchased before 26/3/21 and therefore that has interest being phased out over 4 years. If they change their $400,000 loan from ANZ to Westpac for example, the interest deductions should remain the same and continue to be phased out over 4 years.

General – Cash contributions from banks should not be taxable

Currently cash contributions from banks are taxable income to property investors. This is effectively the bank giving a slight discount on interest, and paying it to the investor as a cash incentive at the start.
If interest is no longer deductible, then the cash contribution that relates to the interest should also be non taxable.

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: [SUSPECT SPAM]Design of the interest limitation rule and additional bright-line rules
Date: Monday, 12 July 2021 1:29:29 AM

Dear Designers of the interest limitation rule and additional bright-line rules

s 9(2)(a) [redacted]

A recent revolving credit example follows:

A roof leak was identified and ascertaining the source of the roof leak was challenging in September 2020. There was and is a shortage of roofing expertise and capacity! s 9(2)(b)(ii) [redacted] This expense interest cost would have been deductible until March 2025 if the job was completed on time before 26 March 2021.

I propose that all revolving credit interest is tax deductible for property owners' repairs and maintenance. s 9(2)(a) [redacted] any rental providers would need to borrow money in order to complete significant repairs and having interest deductibility as an expense is normal business sense. Sadly, the flow on effect is that rents would be increased to cover costs and slowing a renting first home buyer's saving for a deposit.

What would it take to have interest deductibility for large expenses paid with revolving credit?

Warm care, anticipation and thanks
s 9(2)(a) [redacted]

What would it take to co-create an amazing future for rental housing providers, tenants and first home buyers with ease, simplicity, and efficiency?!

PUB-0331

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Cc: s9(2)(a) [redacted]
Subject: [SUSPECT SPAM]Interest limitation rule submission
Date: Monday, 12 July 2021 5:20:03 AM

To whom it may concern,

s 9(2)(a) [redacted].

Please remove the new Interest law that makes interest deductibility disallowed.

If ANYTHING, remove for renovation properties. I buy run down homes, not up to healthy homes standard, needing repairs, maintenance, new cosmetic upgrades, and transform these to produce healthy, clean, warm, STOCK to the MUCH NEEDED rental accommodation here in NZ.

The demand for rental properties is in crisis. s 9(2)(a) [redacted]

s 9(2)(a) [redacted] a business. Just like Kainga Ora is a business (who are exempt from the rules).
To bribe young families to give up all that we have worked for is plain CRUEL and WRONG.
WHERE IS THE INCENTIVE AND INSPIRATION TO WORK HARD AND PLAN YOUR FUTURE IN THIS COUNTRY. THIS SHOULD BE SUPPORTED AND PROMOTED.

I welcome the government to explain this to my children. To explain that in NZ, if you work hard, plan your future, sacrifice so much in your younger years to try and set your family up for a good life, that you are punished SEVERELY for doing so.
Property Investors ARE HERE TO HELP.

WE ARE HERE TO WORK WITH THE GOVERNMENT TO ADD STOCK TO THE HOUSING SHORTAGE.
Property Investors are not the reason for house price increase, SUPPLY is the issue.

Thank you,

--

s9(2)(a) [redacted]

[redacted]

[redacted]

QMS Sport

s9(2)(a) [redacted]

www.qmsmedia.co.nz

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright- line rules
Date:	Monday, 12 July 2021 6:02:46 AM

Dear all,

My wife and myself have been property investors for the last 5 years and take pleasure and pride in providing rental accommodation. We see this as a valuable contribution to society and as a genuine business, as such it should be treated with the same rules as any other business operating in New Zealand.

SUMMARY
- I disagree with the proposed interest limitation rules
- Capital account property holders who are caught with the taxable sale should be able to deduct interest for the whole period of ownership in the year of sale
- Date of commencement for new build should be the earliest date possible in the process of developing, and I suggest from date the existing tenant moves out.
- Rollover relief should be included and should be broadened to include LTC elections and all related party transfers, including share transfers. This should also be back dated to 29/3/18

OVERALL – I disagree with the proposed interest limitation rules. It does nothing to help with the supply of housing, and does nothing to achieve one of the governments key housing objectives, which is to ensure “affordable home to call their own”. I believe rents will increase over time as more existing rentals are sold to personal house owners.

DATE OF COMMENCEMENT FOR NEW BUILDS– Interest deductions should be allowed from when the tenant moves out from the old property. This should be the first stage in an older rental property becoming a new build. Or the interest should be allowable from when the older property is demolished.

MAKE IT SIMPLE – 143 page of discussion document, shows that these rules are already too complicated and will be an unfair burden on taxpayers to comply with the rules. The new rules need to be simple and easy for all to follow.

Many thanks for your considerations,

s 9(2)(a)

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule & additional bright-line rules
Date:	Monday, 12 July 2021 6:24:52 AM

Kia Ora,

Here is my feedback on the interest deductibility rule changes and bright line rule changes impacting residential property investors.

SUMMARY
- I disagree with the proposed interest limitation rules
- Capital account property holders who are caught with the taxable sale should be able to deduct interest for the entire period of ownership in the year of sale
- Date of commencement for new build should be the earliest date possible in the process of developing, and I suggest from date the existing tenant moves out.
- Rollover relief should be included and should be broadened to include LTC elections and all related party transfers, including share transfers. This should also be back dated to 29/3/18

MAKE IT SIMPLE – 143 page of discussion document, shows that these rules are already too complicated and will be an unfair burden on taxpayers to comply with the rules. The new rules need to be simple and easy for all to follow

OVERALL – I disagree with the proposed interest limitation rules. It does nothing to help with the supply of housing, and does nothing to achieve one of the governments key housing objectives, which is to ensure "affordable home to call their own". I believe rents will increase over time as more existing rentals are sold to personal house owners.

CAPITAL ACCOUNT PROPERTY HOLDERS – If a long term hold rental property is sold, and is caught by the brightline rules or other taxing provisions, then interest should be fully deductible in the year of sale. The long term hold investor is already paying a large amount of tax if the sale is taxable, and if interest was not an allowable deduction, tax would then be at an unreasonable level and would severely penalize the property owner. If interest was not deductible for a taxable sale, it could see an owner paying more tax then the gain they made.

DATE OF COMMENCEMENT FOR NEW BUILDS– Interest deductions should be allowed from when the tenant moves out from the old property. This should be the first stage in an older rental property becoming a new build. Or the interest should be allowable from when the older property is demolished.

ROLLOVER RELIEF I agree that there needs to be rollover relief now that Brightline has been extended to 5 and then 10 years. This should cover all related party transactions, and the following should receive rollover relief
- Becoming an LTC should also be excluded from a brightline sale, as becoming an LTC can simplify ownership for a Company and reduce unnecessary compliance costs.
- Sole trader or partnership to LTC, Trust, Company or LP
- LTC share changes, between related parties, including to Trusts and between individuals

Roll over relief should also be back dated to 29/3/18 as there are a lot of rental property owners who unintentional have been caught by these very complicated rules

Thanks
s 9(2)(a)

Disgruntled investor.

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Cc: s9(2)(a) [redacted]
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Monday, 12 July 2021 6:57:54 AM
Attachments: s 9(2)(a) [redacted]

Please find attached my submission for the above title

regards

s 9(2)(a) [redacted]

s 9(2)(a) [redacted] **Submission**

My submission relates to the - Transitional Rules around the Early Owner definition of "New Build", the 12-month timing of the "Code Compliance Certificate" (CCC) issue date, the interest limitation rules and extended Brightline provisions.

ISSUE: The proposed definition relating to the 12-month CCC criteria around the Early Owner "New Build" definition from 27 March 2021 **does not** recognise all the new build scenarios. Examples listed below. This proposed definition goes against the Government's intent of the legislation, in providing quality new builds to all New Zealanders, to increase the accommodation supply.

RECOMMENDATION:

- The Early Owner CCC timing definition be extended out to 5 years like the existing 5-year Bright Line rules relevant at that time when the CCC's were issued from the 27 March 2021 in order to capture all the quality "New Builds" and Healthy Homes built during that time.
- All "New Build" properties issued with CCC's 5 years prior to the 27 March 2021 should be eligible to claim their interest costs for providing quality new builds and be eligible for the amended Bright-Line rules for "New Builds".
- All these properties are "New Builds" and they add to the housing supply and the Government's intent and purpose of this proposed legislation.

Background: *I have two examples listed below of "New Builds" that have not been recognised or captured in the Early Owner New Build definition timeframe of 12 months CCC issued from the 27 March 2021, where they fall outside the 12-month transitional time frame, even though they are "New Builds".*

1st New Build Example

s 9(2)(a) [redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted]

2nd New Build Example –

s 9(2)(b)(ii) [redacted]

[redacted]

[redacted]

Issue Summary

Neither of these 2 examples have been captured or recognised in the proposed "Early Owner New Build Definition" even though they both add to increasing the long-term residential accommodation and housing supply of quality "New Builds" within New Zealand.

Conclusion

As a genuine investor we acquired these new builds as long-term investment properties to add to the existing housing supply with quality "New Builds".

- The 12-month Early Owner New Build transition time frame goes against the intent of increasing the housing supply of quality "New Builds",
- These properties provide long term residential accommodation and
- Provides access to affordable, warm, dry and safe homes (whether rented or owned) for every New Zealander,
- s 9(2)(b)(ii) [redacted]
- This creates a significant barrier to us with the proposed interest limitation rules.

These examples highlight the proposed legislation in haste hasn't recognised all scenarios for "Early Owners of New Builds" for the interest limitation rules and the additional Bright Line rules with CCC 12-month timeframe from the **27 March 2021**.

Compliance Evidence

New Build properties can be verified with the CCC issue date and the LINZ Titles to verify settlement dates and the type of new build. A full Sale and Purchase agreement could also be supplied as evidence of a quality new build home. This evidence assists with the;

- Simplicity of the tax system and compliance costs for taxpayers.

Discuss Further

I am available to be contacted to discuss further if necessary and I would like my name withheld from disclosure/publication under the Official Information Act.

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the design of the interest limitation rule and additional bright- line rules
Date: Monday, 12 July 2021 7:01:03 AM

- I disagree with the proposed interest limitation rules
- Capital account property holders who have a taxable sale should be able to deduct interest for the whole period of ownership in the year of sale
- Date of commencement for new build should be the earliest date possible in the process of developing, and I suggest from date the existing tenant moves out if it is a house being demolished
- Rollover relief should be included and should be broadened to include LTC elections and all related party transfers, including share transfers. This should also be back dated to 29/3/18

OVERALL – I disagree with the proposed interest limitation rules. It does nothing to help with the supply of housing, and does nothing to achieve one of the governments key housing objectives, which is to ensure “affordable home to call their own”. I believe rents will increase over time as more existing rentals are sold to personal house owners.

CAPITAL ACCOUNT PROPERTY HOLDERS – If a long term hold rental property is sold, and is caught by the brightline rules or other taxing provisions, then interest should be fully deductible in the year of sale. The long term hold investor is already paying a large amount of tax if the sale is taxable, and if interest was not an allowable deduction, tax would then be at an unreasonable level and would severely penalize the property owner. If interest was not deductible for a taxable sale, it could see an owner paying more tax then the gain they made.

DATE OF COMMENCEMENT FOR NEW BUILDS– Interest deductions should be allowed from when the tenant moves out from the old property. This should be the first stage in an older rental property becoming a new build. Or the interest should be allowable from when the older property is demolished.

ROLLOVER RELIEF I agree that there needs to be rollover relief now that Brightline has been extended to 5 and then 10 years. This should cover all related party transactions, and the following should receive rollover relief
- Becoming an LTC should also be excluded from a brightline sale, as becoming an LTC can simplify ownership for a Company and reduce unnecessary compliance costs.
- Sole trader or partnership to LTC, Trust, Company or LP
- LTC share changes, between related parties, including to Trusts and between individuals

Roll over relief should also be back dated to 29/3/18 as there are a lot of rental property owners who unintentional have been caught by these very complicated rules

MAKE IT SIMPLE – 143 page of discussion document, shows that these rules are already too complicated and will be an unfair burden on taxpayers to comply with the rules. The new rules need to be simple and easy for all to follow.

PUB-0336

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional brightline rules
Date: Monday, 12 July 2021 7:02:37 AM

I disagree with the proposed interest limitation rules.

- Capital account property holders who are caught with the taxable sale should be able to deduct interest for the whole period of ownership in the year of sale

- Date of commencement for new build should be the earliest date possible in the process of developing, and I suggest from date the existing tenant moves out.

- Rollover relief should be included and should be broadened to include LTC elections and all related party transfers, including share transfers. This should also be back dated to 29/3/18

OVERALL – I disagree with the proposed interest limitation rules. It does nothing to help with the supply of housing, and does nothing to achieve one of the governments key housing objectives: which is to ensure "affordable homes to call their own". I believe rents will increase over time as more existing rentals are sold to personal house owners, thereby decreasing the overall pool of properties available for rent.

CAPITAL ACCOUNT PROPERTY HOLDERS – If a long term hold rental property is sold, and is caught by the brightline rules or other taxing provisions, then interest should be fully deductible in the year of sale. The long term hold investor is already paying a large amount of tax if the sale is taxable, and if interest was not an allowable deduction, tax would then be at an unreasonable level and would severely penalize the property owner. If interest was not deductible for a taxable sale, it could see an owner paying more tax then the gain they made, and more tax than any other business owner incurring tax in the day to day operation of their business.

DATE OF COMMENCEMENT FOR NEW BUILDS– Interest deductions should be allowed from when the tenant moves out from the old property. This should be the first stage in an older rental property becoming a new build. Or the interest should be allowable from when the older property is demolished.

ROLLOVER RELIEF I agree that there needs to be rollover relief now that Brightline has been extended to 5 and then 10 years. This should cover all related party transactions, and the following should receive rollover relief
- Becoming an LTC should also be excluded from a brightline sale, as becoming an LTC can simplify ownership for a Company and reduce unnecessary compliance costs.
- Sole trader or partnership to LTC, Trust, Company or LP
- LTC share changes, between related parties, including to Trusts and between individuals

Roll over relief should also be back dated to 29/3/18 as there are a lot of rental property owners who unintentional have been caught by these very complicated rules

MAKE IT SIMPLE – 143 page of discussion document, shows that these rules are already too complicated and will be an unfair burden on taxpayers to comply with the rules. The new rules need to be simple and easy for all to follow.

PUB-0337

From:	s 9(2)(a) [redacted]
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Monday, 12 July 2021 7:07:21 AM

Firstly I want to indicate that I had to spend 15 minutes trying to find how to make this feedback. Why there simply wasn't a link and instructions on the IRD page hosting the document I don't know.

My feedback is specifically on the rollover relief provisions. With a prescriptive lost of conforms that must be met in offer for rollover relief to be valid, why is it proposed that rollover relief begin from 1st April 2022, when the bright line of 10 years already applies to properties bought after March 2021?

If seems to me there no reason that this rollover relief could not be applied retrospectively, so that any qualifying transactions after March 2021 would fall under the provision, after all we're talking about assets that are likely to be held for many years, and simply by nature of them being transferred into a trust in the "dead period" between March 2021 and 2022 all houses are will now subject to the 10 year bright line test, and but the exact same houses transferred into trusts after April 2022 may not be. It seems peculiar to be penalizing some transactions purely for timing reasons. For the (likely very small number of) houses that were transferred to trusts after the 10 year bright line test applied and then were subsequently sold and bright line test were applied to the gains could be left as-is with no relief, or they could be granted retrospective relief also if the final disposal sale occurred after 1st April 2021 as the tax would then be due in the current tax year, so there's still time to change the rules so this revenue is not taxed without creating too many complications as the tax year is not yet finished.

At the least, I don't see why the rollover relief provisions could not apply from 1st October 2021, when the interest deduction changes come into force as well, thus giving everyone who must deal with these law changes a single date they need to keep in mind - 1st October, rather than some things starting on 1st October and others on 1st April 2022.

s 9(2)(b)(ii) [redacted]

Thanks,

s 9(2)(a) [redacted]

PUB-0338

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	[SUSPECT SPAM]Design of the interest limitation rule and additional bright- line rules
Date:	Monday, 12 July 2021 7:13:05 AM

To Whom it may concern, I am writing this to show my opposition to the proposed interest rules.

SUMMARY

- I disagree with the proposed interest limitation rules

- Capital account property holders who are caught with the taxable sale should be able to deduct interest for the whole period of ownership in the year of sale

- Date of commencement for new build should be the earliest date possible in the process of developing, and I suggest from date the existing tenant moves out.

- Rollover relief should be included and should be broadened to include LTC elections and all related party transfers, including share transfers. This should also be back dated to 29/3/18

OVERALL – I disagree with the proposed interest limitation rules. It does nothing to help with the supply of housing, and does nothing to achieve one of the governments key housing objectives, which is to ensure people have access to “affordable home to call their own”. I believe rents will increase over time as more existing rentals are sold to personal house owners.

DATE OF COMMENCEMENT FOR NEW BUILDS– Interest deductions should be allowed from when the tenant moves out from the old property. This should be the first stage in an older rental property becoming a new build. Or the interest should be allowable from when the older property is demolished.

CAPITAL ACCOUNT PROPERTY HOLDERS – If a long term hold rental property is sold, and is caught by the brightline rules or other taxing provisions, then interest should be fully deductible in the year of sale. The long term hold investor is already paying a large amount of tax if the sale is taxable, and if interest was not an allowable deduction, tax would then be at an unreasonable level and would severely penalize the property owner. If interest was not deductible for a taxable sale, it could see an owner paying more tax then the gain they made.

ROLLOVER RELIEF I agree that there needs to be rollover relief now that Brightline has been extended to 5 and then 10 years. This should cover all related party transactions, and the following should receive rollover relief

- Becoming an LTC should also be excluded from a brightline sale, as becoming an LTC is merely a way that we can simplify ownership for a Company and reduce unnecessary compliance costs.

- Sole trader or partnership to LTC, Trust, Company or LP

- LTC share changes, between related parties, including to Trusts and between individuals

Roll over relief should also be back dated to 29/3/18 as there are a lot of rental property owners who unintentional have been caught by these very complicated rules

MAKE IT SIMPLE – The fact that there are 143 pages of discussion in this document, shows that these rules are already too complicated and will be an unfair burden on taxpayers to comply with the rules. The new rules need to be simple and easy for all to follow.

--

Thanks

s 9(2)(a)

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Monday, 12 July 2021 7:31:55 AM

Hi there

I would like to make a submission on the new interest and bright-line rules.

As the objective is to introduce the changes as fairly and simply as possible, it makes sense to implement these changes from the start of the financial year and allow 100% deductions for the 2022 year, then 75% from 2023, $505 for 2024 and $25% for 2025. As the interest amounts change month on month, it would be easier to make the required adjustments on a yearly basis – so no transitional year. Also we should allow purchases on or after the 27th of March the same level of deductions. This would also give you more time to put together some clear and concise legislation as a 143 page discussion document shows that the rules are already complicated. Overall I disagree with the propose interest limitation rules. Interest is a legitimate business expenses and not a loop hole. It does nothing to help with the supply of housing, and does nothing to achieve one of the governments key housing objectives, which is to ensure "affordable home to call their own". I believe rents will increase over time as more existing rentals are sold to personal house owners.

Deductions should be allowed for early owners only, subsequent purchasers are not purchasing new builds.

Capital account property owners who sell a property and are caught by the brightline rules or other taxing provisions should be allowed interest deductions in the year of sale.

AirBNB/ Serviced apartments should still be allowed to deduct interest, as this is commercial – if turnover exceeds $60k from this income they are captured in the GST net. If these types of property are included in these rules, then you should be able to apply the same tax rules as long-term residential renting.

There should be rollover relief for all related party transactions, and should be back dated to 29/03/2018.

Tracing – refinancing – go with stacking option – excluding loans that can be traced to private purposes the loans should be allocated first to assets that are not residential investment properties.

New build exemption should have a fixed period of 20 years.

Kind regards

s9(2)(a) [redacted]

[redacted]

WEB: WWW.REALCA.CO.NZ

REAL CHARTERED ACCOUNTANTS
Your business growth partner

37 MONMOUTH STREET, TAURANGA, 3110
PO BOX 305, TAURANGA P. 07 571 8081

PUB-0340

From: s 9(2)(a)
To: Policy Webmaster
Subject: Interest limitation rule
Date: Monday, 12 July 2021 7:37:40 AM

Hi there,

I disagree with the propose interest limitation rules which is inconsistent with other businesses. I, as a property investor, should have the right to claim interest cost as per any other business

I disagree with the proposed interest limitation rules. It does nothing to help with the supply of housing, and does nothing to achieve one of the governments key housing objectives, which is to ensure "affordable home to call their own". I believe rents will increase over time as more existing rentals are sold to personal house owners.

You are making not overly well thought out changes to a sector, which will likely leave people like me to exit the market or increase rents. Both are not positive.

Or the easiest job keeping everyone happy but I hope you do take onboard some of this feedback.

Sent from my iPad

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright- line rules
Date: Monday, 12 July 2021 7:53:38 AM

SUMMARY
- I disagree with the propose interest limitation rules
- Capital account property holders who are caught with the taxable sale should be able to deduct interest for the whole period of ownership in the year of sale
- Date of commencement for new build should be the earliest date possible in the process of developing, and I suggest from date the existing tenant moves out.
- Rollover relief should be included and should be broadened to include LTC elections and all related party transfers, including share transfers. This should also be back dated to 29/3/18

OVERALL – I disagree with the proposed interest limitation rules. It does nothing to help with the supply of housing, and does nothing to achieve one of the governments key housing objectives, which is to ensure “affordable home to call their own”. I believe rents will increase over time as more existing rentals are sold to personal house owners.
With the current restrictions of building supplies houses will not be finished. As covid restrictions ease and immigration increases there will be more demand for housing. If houses can't be built the current stock will come under more pressure. Only the wealthy will be able to purchase rentals because they have the extra income to offset the proposed tax changes. Resulting in value hikes.

CAPITAL ACCOUNT PROPERTY HOLDERS – If a long term hold rental property is sold, and is caught by the brightline rules or other taxing provisions, then interest should be fully deductible in the year of sale. The long term hold investor is already paying a large amount of tax if the sale is taxable, and if interest was not an allowable deduction, tax would then be at an unreasonable level and would severely penalize the property owner. If interest was not deductible for a taxable sale, it could see an owner paying more tax then the gain they made.

DATE OF COMMENCEMENT FOR NEW BUILDS– Interest deductions should be allowed from when the tenant moves out from the old property. This should be the first stage in an older rental property becoming a new build. Or the interest should be allowable from when the older property is demolished.

ROLLOVER RELIEF I agree that there needs to be rollover relief now that Brightline has been extended to 5 and then 10 years. This should cover all related party transactions, and the following should receive rollover relief
- Becoming an LTC should also be excluded from a brightline sale, as becoming an LTC can simplify ownership for a Company and reduce unnecessary compliance costs.
- Sole trader or partnership to LTC, Trust, Company or LP
- LTC share changes, between related parties, including to Trusts and between individuals

Roll over relief should also be back dated to 29/3/18 as there are a lot of rental property owners who unintentional have been caught by these very complicated rules

MAKE IT SIMPLE – 143 page of discussion document, shows that these rules are already too complicated and will be an unfair burden on taxpayers to comply with the rules. The new rules need to be simple and easy for all to follow.

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Monday, 12 July 2021 7:54:39 AM

Good morning.

I'm a landlord of four properties.
We never meant to be landlords, but life works in funny ways.

s9(2)(a) s9(2)(a) [redacted]
We saw some of the interested parties at the time of sale, and due to the condition of the property, there were some real undesirables looking to buy it.
We were successful.
s 9(2)(b)(ii) [redacted].
Our next tenants were s9(2)(a) [redacted] and stayed for four years, before moving s9(2)([redacted] for work.

s9(2)(a) [redacted] s 9(2)(b)(ii) [redacted]
s 9(2)(b)(ii) [redacted], it took us a year and s 9(2)(b)(ii) [redacted] to get it back into a solid, liveable condition and make it ready for tenants. It's still empty, and we can't insure it yet, as we need an engineer to sign off on the repairs.

Meanwhile, on the front of the same property, the street facing 3-bedroom house came up for private sale. We had known the tenant for s9(2)(a) [redacted]
s 9(2)(b)(ii) [redacted]

s9(2)(a) [redacted]
We let the front house to s9(2)(a) [redacted]

Late last year, the neighbours next to our own home were told they had to leave their rental s9(2)(a) [redacted] due to work being done on the bathroom.
s9(2)(a) [redacted]. s 9(2)(b)(ii) [redacted]

Our own home still has work to be done, and we've had no carpet for 10 years.
The rentals always took priority

We are not speculators.
We do not plan to sell these houses, for a very long time, if at all.
We strive to make our properties feel like home for their occupants.
The front house with the young couple recently had issues with the shower. We replaced the shower and also converted their hot water to gas, as they had low pressure and were s9(2)(a) [redacted] s 9(2)(b)(ii) [redacted]

Then we had a concrete pad put in for the driveway, at a cost of s 9(2)(b)(ii) [redacted] because the tyres in winter were gouging large potholes and flooding.

We do our best for our tenants.
s 9(2)(b)(ii) [redacted].
s 9(2)(b)(ii) [redacted]

s 9(2)(b)(ii) [redacted]

We are not speculators, nor are we greedy slumlords. We pay principle and interest on our properties because we don’t want debt in the long term.

Why then, are we unable to offset interest costs as a business expense, as are other businesses?

We agree with the bright line test. That makes sense.

But the removal of the ability to deduct interest as a business expense hits us where it hurts.
s 9(2)(b)(ii) [redacted]

We are not speculators.
Why treat us as such?
Have we not done more than most, and paid enough?

s 9(2)(a) [redacted]

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Monday, 12 July 2021 8:18:10 AM

The interest limitation rule is against the foundation of Tax rules.

If the interest expense driving the taxable income cannot be deductible, then the income should not be taxable.

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules
Date: Monday, 12 July 2021 7:54:39 AM

Good morning.

I'm a landlord of four properties.
We never meant to be landlords, but life works in funny ways.

The first property we purchased adjoined my mother-in-law's unit in s9(2)(a) When the long time occupant died, we fought to win the right to purchase it from the owners when it went to market, so that we could protect Mum-in-law from being stuck next to neighbours that were unsuitable to quiet enjoyment of her home.
We saw some of the interested parties at the time of sale, and due to the condition of the property, there were some real undesirables looking to buy it.
We were successful.
We poured money into it to make it a happy and healthy home for rent, and our first tenant lived their for five years and became fast friends with Mum-in-law.
Our next tenants were a young Indian family and stayed for four years, before moving to Auckland for work.

Mum-in-law moved into a newer, more healthy home, with our help. s9(2)(a) - our unit, attached, far less so. We purchased her unit "as-is-where-is" to enable her to afford her new forever home.
While we got it super cheap due to the damage, it took us a year and over $100,000 to get it back into a solid, liveable condition and make it ready for tenants. It's still empty, and we can't insure it yet, as we need an engineer to sign off on the repairs.

Meanwhile, on the front of the same property, the street facing 3-bedroom house came up for private sale. We had known the tenant for more than 20 years - my husband had grown up next door to her.
We were able to buy that house and keep her on.

She wanted to down-size after a year, so she moved into the smaller flat - the first one we had purchased- and is still there today.
We let the front house to a young couple.

Late last year, the neighbours next to our own home were told they had to leave their rental of 3+ years due to work being done on the bathroom.
They had a s9(2)(a) old (s9(2)(a) boy s9(2)(a) will always require special facilities and round the clock care. They also foster children full time. We were in the fortunate position to be able to buy a house for them that perfectly suited their needs for their young and special family.

Our own home still has work to be done, and we've had no carpet for 10 years.
The rentals always took priority

We are not speculators.
We do not plan to sell these houses, for a very long time, if at all.
We strive to make our properties feel like home for their occupants.
The front house with the young couple recently had issues with the shower. We replaced the shower and also converted their hot water to gas, as they had low pressure and were bringing in a flatmate. The cost was around $8,000.

Then we had a concrete pad put in for the driveway, at a cost of another $3,000 because the tyres in winter were gouging large potholes and flooding.

We do our best for our tenants.
We subsidise rent on the small flat, because our tenant would otherwise not be able to afford to live there.
We charge lower than market rent and we only increase rent when someone moves out, if it’s too low for the market.

We pay an accountant to ensure that everything is done by the book, and we no longer have the option to offset losses against tax.

We are not speculators, nor are we greedy slumlords. We pay principle and interest on our properties because we don’t want debt in the long term.

Why then, are we unable to offset interest costs as a business expense, as are other businesses?

We agree with the bright line test. That makes sense.

But the removal of the ability to deduct interest as a business expense hits us where it hurts.
Particularly when we have spent a huge amount in preparing and maintaining these properties and we cannot include the cost of the repairs as an expense while the property is not rented (think of the mum-in-laws place that we just spent $100k on) - the whole purpose of making the place sound and compliant is at our cost, with no ability to claim expenses as it is not yet rented.

We are not speculators.
Why treat us as such?
Have we not done more than most, and paid enough?

s 9(2)(a) [redacted]

PUB-0344

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright- line rules
Date: Monday, 12 July 2021 8:20:45 AM

Good morning,

I refer to the points below:

SUMMARY

- I disagree with the propose interest limitation rules

- Capital account property holders who are caught with the taxable sale should be able to deduct interest for the whole period of ownership in the year of sale

- Date of commencement for new build should be the earliest date possible in the process of developing, and I suggest from date the existing tenant moves out.

- Rollover relief should be included and should be broadened to include LTC elections and all related party transfers, including share transfers. This should also be back dated to 29/3/18

OVERALL – I disagree with the proposed interest limitation rules. It does nothing to help with the supply of housing, and does nothing to achieve one of the governments key housing objectives, which is to ensure “affordable home to call their own”. I believe rents will increase over time as more existing rentals are sold to personal house owners.

CAPITAL ACCOUNT PROPERTY HOLDERS – If a long term hold rental property is sold, and is caught by the brightline rules or other taxing provisions, then interest should be fully deductible in the year of sale. The long term hold investor is already paying a large amount of tax if the sale is taxable, and if interest was not an allowable deduction, tax would then be at an unreasonable level and would severely penalize the property owner. If interest was not deductible for a taxable sale, it could see an owner paying more tax then the gain they made.

DATE OF COMMENCEMENT FOR NEW BUILDS– Interest deductions should be allowed from when the tenant moves out from the old property. This should be the first stage in an older rental property becoming a new build. Or the interest should be allowable from when the older property is demolished.

ROLLOVER RELIEF I agree that there needs to be rollover relief now that Brightline has been extended to 5 and then 10 years. This should cover all related party transactions, and the following should receive rollover relief

- Becoming an LTC should also be excluded from a brightline sale, as becoming an LTC can simplify ownership for a Company and reduce unnecessary compliance costs.

- Sole trader or partnership to LTC, Trust, Company or LP

- LTC share changes, between related parties, including to Trusts and between individuals

Roll over relief should also be back dated to 29/3/18 as there are a lot of rental property owners who unintentional have been caught by these very complicated rules

MAKE IT SIMPLE – 143 page of discussion document, shows that these rules are already too complicated and will be an unfair burden on taxpayers to comply with the rules. The new rules need to be simple and easy for all to follow.

Thank you

Kind regards

s 9(2)(a)

From:	s 9(2)(a) [redacted]
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and bright line rules
Date:	Monday, 12 July 2021 8:22:17 AM
Importance:	High

I disagree with the proposed interest limitation rules:

- Property holders who are caught with the taxable sale should be able to deduct interest for the whole period of ownership in the year of sale

- Rollover relief should be included and should be broadened to include LTC elections and all related party transfers, including share transfers. This should also be back dated to 29/3/18

I disagree with the proposed interest limitation rules. It won't help with the supply of housing, as a lot of landlords like us will have to sell their rental properties and those long term families will find it very hard to find suitable housing in the particular areas they need to live e.g. local schools for their children and the landlords that do not sell will increase rents, which has already started happening.

If a long term hold rental property is sold, and is caught by the brightline rules or other taxing provisions, then interest should be fully deductible in the year of sale. The long term hold investor is already paying a large amount of tax if the sale is taxable, and if interest was not an allowable deduction, tax would then be at an unreasonable level and would severely penalize the property owner. If interest was not deductible for a taxable sale, it could see an owner paying more tax then the gain they made.

I agree that there needs to be rollover relief now that Brightline has been extended to 5 and then 10 years. This should cover all related party transactions, and the following should receive rollover relief

- Becoming a LTC should also be excluded from a brightline sale, as becoming an LTC can simplify ownership for a Company and reduce unnecessary compliance costs.
- Sole trader or partnership to LTC, Trust, Company or LP
- LTC share changes, between related parties, including to Trusts and between individuals

Roll over relief should also be back dated to 29/3/18 as there are a lot of rental property owners who unintentional have been caught by these very complicated rules

MAKE IT SIMPLE – 143 page of discussion document, shows that these rules are already too complicated and will be an unfair burden on taxpayers to comply with the rules. The new rules need to be simple and easy for all to follow.

s 9(2)(a) [redacted]

--

s 9(2)(a) [redacted]

[redacted] | W: www.commarc.co.nz

COMMARC
CLOUD TECHNOLOGY SPECIALISTS

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright line rules
Date: Monday, 12 July 2021 8:24:08 AM

SUMMARY
- I disagree with the propose interest limitation rules
- Capital account property holders who are caught with the taxable sale should be able to deduct interest for the whole period of ownership in the year of sale
- Date of commencement for new build should be the earliest date possible in the process of developing, and I suggest from date the existing tenant moves out.
- Rollover relief should be included and should be broadened to include LTC elections and all related party transfers, including share transfers. This should also be back dated to 29/3/18

OVERALL – I disagree with the proposed interest limitation rules. It does nothing to help with the supply of housing, and does nothing to achieve one of the governments key housing objectives, which is to ensure "affordable home to call their own". I believe rents will increase over time as more existing rentals are sold to personal house owners.

CAPITAL ACCOUNT PROPERTY HOLDERS – If a long term hold rental property is sold, and is caught by the brightline rules or other taxing provisions, then interest should be fully deductible in the year of sale. The long term hold investor is already paying a large amount of tax if the sale is taxable, and if interest was not an allowable deduction, tax would then be at an unreasonable level and would severely penalize the property owner. If interest was not deductible for a taxable sale, it could see an owner paying more tax then the gain they made.

DATE OF COMMENCEMENT FOR NEW BUILDS– Interest deductions should be allowed from when the tenant moves out from the old property. This should be the first stage in an older rental property becoming a new build. Or the interest should be allowable from when the older property is demolished.

ROLLOVER RELIEF I agree that there needs to be rollover relief now that Brightline has been extended to 5 and then 10 years. This should cover all related party transactions, and the following should receive rollover relief
- Becoming an LTC should also be excluded from a brightline sale, as becoming an LTC can simplify ownership for a Company and reduce unnecessary compliance costs.
- Sole trader or partnership to LTC, Trust, Company or LP
- LTC share changes, between related parties, including to Trusts and between individuals

Roll over relief should also be back dated to 29/3/18 as there are a lot of rental property owners who unintentional have been caught by these very complicated rules

MAKE IT SIMPLE – 143 page of discussion document, shows that these rules are already too complicated and will be an unfair burden on taxpayers to comply with the rules. The new rules need to be simple and easy for all to follow.

s 9(2)(a)

From: s 9(2)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright- line rules
Date: Monday, 12 July 2021 8:27:32 AM

To whom it may concerns,

With regards to the proposed changes to the Housing policy announced, following is my commentary.

I 100% disagree with the propose interest limitation rules.

Loss on interest deductibility – I disagree with the proposed interest limitation rules. To buy a property a loan is taken out which attracts interest and any other business has the ability to deduct this cost. By removing this ability it singles out property investors and penalises them for trying to help provide the much needed rental supply. It is no different from many other businesses and removing it does nothing to help with the supply of housing, it will force landlords to find other ways to recoup these additional costs, a rise is rent is inevitable and will only continue to increase once interest rates begin to increase. It will ultimately hurt tenants of whom many of them are aspiring home buyers saving up their funds.

It will also do nothing to help the govt to achieve their objective of making housing more affordable for home buyers.

Regards,

s 9(2)(a)

PUB-0348

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Submission Design of the interest limitation rule and additional bright-line rules
Date:	Monday, 12 July 2021 9:01:59 AM

Submission

Design of the interest limitation rule and additional bright-line rules

	Summary points	**Recommendation**
Development and related activities		
Should land dealers included under CB7 be carved out from the proposed sec CB7 safe harbour	**No** -land is being bought but kept vacant for years with no development, therefore not adding to housing stock. Land is saved for later for sale at high prices -existing home and land upto 650square metre is being bought at any price, this is not supportive of making houses available to first home buyers. Houses are demolished and land kept vacant for sale later, this doesn't add to house stock!!!	Land dealers should be taxed until they sell for development. This will stop them from raising sale prices, hoarding land and reselling higher at a later date.
Do you agree with the proposed criteria for the development exemption to apply	**No** At present developers are not building houses as they should. Eg 1 & 3 Evans rd bought with intention to build 8-12 houses, nothing for 6 months,4523 gt North rd bought by investor about 6 months ago, nothing so far,73 with resource consent to build 3 houses nothing so far,82	There should be an exception on new builds, if the new build are **upto house median price then the developers should be exempted,** anything above that should have some tax to slow down price hikes by developers and make new builds affordable.

	Westcoast rd left derelict, how is this adding to housing stock? Even though they are tax exempted n**ew builds start at $1million,** this is not affordable. If investors were the ones causing price rises this would have slowed down ny now but prices keep going up(over past 6 months there has been a increase of $200k to $1m k), now the developers are outpricing everything	
When should interest begin to be deductible when property is not acquired for the purpose of development, but that intention is formed later	People at present buy and hold for the purpose of developing years later, paying no taxes , not adding housing stock!!!. As they are able to pay more money it keeps raising the price of existing houses, making housing unaffordable. Real estate agents aim to sell existing homes to developers/investors.	There should be one rule for all developers /investors and others. The deductibility should apply once substantial work has been achieved. It will help make existing houses available for normal ordinary people to buy at a lower price

To buy in Auckland at present
-A house on 650 sq metre if you lucky is $1m-1.1m
-a house upto 800 is $1.2-1.8
and anything after that to subdivide or has the potential of multi-apartments is anyones game. The market at present does not support affordable prices not adds more affordable stock to new build.
The above are my personal views.

Thank you
s 9(2)(a)

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright- line rules
Date: Monday, 12 July 2021 9:33:39 AM

Good morning,

I disagree with the proposed interest limitation rules. It does nothing to help with the supply of housing, and does nothing to achieve one of the governments key housing objectives, which is to ensure "affordable home to call their own". I believe rents will increase over time as more existing rentals are sold to personal house owners.

I disagree with the proposed interest limitation rules. Capital account property holders who are caught with the taxable sale should be able to deduct interest for the whole period of ownership in the year of sale

If a long term hold rental property is sold, and is caught by the brightline rules or other taxing provisions, then interest should be fully deductible in the year of sale. The long term hold investor is already paying a large amount of tax if the sale is taxable, and if interest was not an allowable deduction, tax would then be at an unreasonable level and would severely penalize the property owner. If interest was not deductible for a taxable sale, it could see an owner paying more tax then the gain they made.

Regards,

s 9(2)(a)

From: s 9(2)(a)
To: Policy Webmaster
Cc: s9(2)(a)
Subject: Design of the interest limitation rule and additional bright- line rules
Date: Monday, 12 July 2021 9:36:06 AM

OVERALL – I disagree with the proposed interest limitation rules. It does nothing to help with the supply of housing, and does nothing to achieve one of the governments key housing objectives, which is to ensure "affordable home to call their own". I believe rents will increase over time as more existing rentals are sold to personal house owners.

SPECIFICALLY The hard cut off of 27/03/2021 for "New Builds" seems unreasonable.

My wife and I made the decision that we would invest in new builds as they would help housing supply in New Zealand as well as provide properties that are warm and comfortable for tenants.

We ultimately purchased two apartments s9(2)(a) both of which had their CCC's issued in October 2020.

We feel as though we have done everything right and have acted in a way that we are part of the solution to NZ's housing supply issues, yet from October we will not be able to deduct the full interest expense (a legitimate deductible expense for any other business).

What seems particularly unfair is the possibility that someone else purchasing a property after 27 March 2021, which has had its CCC issued within the last 12 months, would have the ability to fully deduct their interest expense going forward.

I believe that any new build purchased prior to 27 March 2021, that was issued its CCC after 27 March 2020 should be allowed to fully deduct interest expenses going forward.

CAPITAL ACCOUNT PROPERTY HOLDERS – If a long term hold rental property is sold, and is caught by the brightline rules or other taxing provisions, then interest should be fully deductible in the year of sale. The long term hold investor is already paying a large amount of tax if the sale is taxable, and if interest was not an allowable deduction, tax would then be at an unreasonable level and would severely penalize the property owner. If interest was not deductible for a taxable sale, it could see an owner paying more tax then the gain they made.

ROLLOVER RELIEF I agree that there needs to be rollover relief now that Brightline has been extended to 5 and then 10 years. This should cover all related party transactions, and the following should receive rollover relief
- Becoming an LTC should also be excluded from a brightline sale, as becoming an LTC can simplify ownership for a Company and reduce unnecessary compliance costs.
- Sole trader or partnership to LTC, Trust, Company or LP
- LTC share changes, between related parties, including to Trusts and between individuals
Roll over relief should also be back dated to 29/3/18 as there are a lot of rental property owners who unintentional have been caught by these very complicated rules

MAKE IT SIMPLE – 143 page of discussion document, shows that these rules are already too complicated and will be an unfair burden on taxpayers to comply with the rules. The new rules need to be simple and easy for all to follow.

Thank you for your consideration

s 9(2)(a)

From: s 9(2)(a)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright- line rules
Date: Monday, 12 July 2021 9:37:39 AM

Dear Sir/ Madam,

I am a landlord together with my husband, housing 4 families long term in our private rental properties and providing much needed short term accommodation in our local area. We are proud to present our properties to high standards and create long term relationships with our clients.

I disagree with the proposed interest limitation rules as they will severely limit our ability to provide the current much needed housing stock for these four families, but they will also eliminate our ability to provide future housing for more families as we had planned. As the proposed limitation for a 'new build' rules out our very recent 'brand new build', the extra tax bill from this proposed change would stop us buying new properties and force us to examine whether we can afford to keep the relatively new houses we have. I would hate to be in a position to sell our current houses and evict the families we have now, but the prospect of finding an extra $20,000 per year for the tax bill is likely to be too large a burden. We will await the final decision on this legislation before making a decision that will impact the sixteen lives of our rental families.

I would like to see the new build definition widened to encompass anything built in the last 10 years, which will be at a high standard and meet healthy homes criteria. This approach fits the drive and focus of the Government to provide more high quality homes and enable individuals who have been focussed on increasing the housing stock in New Zealand to continue to do so.

I would like to see the period of tax deductibility captured at 20 years, irrelevant of ownership. If the deductibility were to sit solely with the initial property owner, then this would discourage property sale and limit the attractiveness of building any new housing stock.

Roll over relief is also an important factor in deciding how/ whether we will continue with our current property investments. I agree that there needs to be rollover relief now that Brightline has been extended to 5 and then 10 years. This should cover all related party transactions, and the following should receive rollover relief

Roll over relief should also be back dated to 29/3/18 as there are a lot of rental property owners who unintentional have been caught by these very complicated rules.

I believe that becoming an LTC should also be excluded from a brightline sale, as becoming an LTC can simplify ownership for a Company and reduce unnecessary compliance costs.

Overall I disagree with the proposed interest limitation rules. It does the opposite of help with the supply of housing, and does nothing to achieve one of the governments key housing objectives, which is to ensure “affordable home to call their own”. This won't make it easier to save a first home deposit, enable more building stock or decrease house prices. I believe rents will increase over time as more existing rentals are sold to personal house owners, reducing the rental house pool.

It seems to be a really difficult and complicated change proposed, placing an unfair burden on taxpayers to comply with the rules and to administer. The new rules need to be simple and easy for all to follow and shouldn't disadvantage renters or those providing much needed high quality housing stock.

--
Kind regards
[redacted] s 9(2)(a)

From: s 9(2)
To: Policy Webmaster
Subject: Design of the interest limitation rule and additional bright-line rules [BG-B.FID1196243]
Date: Monday, 12 July 2021 9:42:03 AM
Attachments: Design of the interest limitation rule and additional bright-line rules - Bell Gully submissions.pdf

---

To whom it may concern,

Please find **attached** our submissions on the Government discussion document “Design of the interest limitation rule and additional bright-line rules”.

Don’t hesitate to get in contact using my details below if you have any questions.

Kind regards,

s 9(2)(a) Lawyer
BELL GULLY
s 9(2)(a)
s 9(2)(a)

BELL GULLY

s 9(2)(a) [redacted]

C/- Deputy Commissioner, Policy and Regulatory Stewardship
Inland Revenue Department
PO Box 2198

Wellington

Bell Gully submissions: Design of the interest limitation rule and additional bright-line rules

1. **Introduction**

1.1 This letter sets out the submissions of Bell Gully on the proposed rules to limited interest deductions for residential investment property (the **Proposed Rules**) described in the Government discussion document *Design of the interest limitation rule and additional bright-line rules* (the **Discussion Document**).

1.2 As a general comment, Bell Gully is concerned that the Proposed Rules are too far reaching and will inevitably capture properties that do not contribute to rising house prices in New Zealand. The ambit of the Proposed Rules should be appropriately limited to reflect the need for certainty, appropriately manage complexity and minimise administrative burden for taxpayers.

2. **First submission: apportionment approach for the business premises exclusion**

Submission

2.1 Bell Gully supports the apportionment approach to the application of the business premises exclusion in the Proposed Rules.

Explanation

2.2 The all-or-nothing approach to the business premises exclusion is inappropriate in the context of the Proposed Rules.

3. **Second submission: short-stay accommodation substitutability issues**

Submission

3.1 Bell Gully supports the proposal that properties used as short-stay accommodation that are not substitutable for long-term accommodation should be carved out from the Proposed Rules.

3.2 However, the factors relevant when assessing substitutability for long-term accommodation should be expanded to include (i) proximity to urban areas, (ii) the extent to which ancillary services are provided to guests and (iii) the scale of the property.

3.3 Alternatively, boutique luxury accommodation should be specifically carved-out, as investment in such properties is not contributing to the housing shortage.

s 9(2)(b)(ii) [redacted]

Explanation

3.4 The Discussion Document acknowledges that certain properties may not fit into the proposed exclusion for traditional commercial accommodation (e.g., hotels) but may also not be neatly classified as standard residential property such as apartments or houses (see paragraph [2.80]). We agree that an exclusion from the interest limitation rule should operate where such properties are not "substitutable" for long-term accommodation.

3.5 The Discussion Document seems to suggest, however, that the substitutability analysis should be carried out with reference solely to the physical structure or features of the building in question such as the available amenities, whether the property is stand-alone etc (see paragraph [2.81]). The substitutability carve-out should consider factors that extend beyond the nature of the building itself.

3.6 One example of the type of property that might fall within the substitutability exclusion is luxury / upmarket short-term accommodation. If the question of substitutability was determined solely with reference to the nature of the building itself, such properties would likely be subject to the interest limitation rule as they are structurally very similar to ordinary long-term rentals (and, in some cases, are even used for that purpose at certain times of the year).

3.7 In our view, the interest limitation rule should not apply to properties such as this, as they do not contribute to the housing problem in New Zealand and operate in a separate market. The Government should therefore consider a more holistic approach to the determination of whether a property is substitutable for long-term accommodation. The following factors should also be incorporated:

(a) Whether the property is in an urban area, or if it is otherwise secluded (and is therefore not close to urban amenities such as schools, public transport and healthcare facilities).

(b) Whether ancillary services are provided as part and parcel of the property rental (for example, an onsite chef, daily housekeeping, guided activities).

(c) The scale of the properties (for example, the size and value of the property may support exclusion from the rules as such properties are not in competition with the residential housing market).

3.8 Alternatively, the Government could consider a specific carve-out for boutique luxury accommodation (noting that we do not think that the proposed serviced apartment carve-out would be broad enough to capture such properties).

4. **Third submission: treatment of foreign currency loans**

Submission

4.1 Foreign currency loans that relate to pre-27 March 2021 residential rental properties should be subject to the same phasing out as NZD loans.

Explanation

4.2 The Government has proposed that interest on foreign currency loans that fund pre-27 March residential rental property will become non-deductible on 1 October 2021 with no phasing period, unless the foreign currency loan is re-financed with an NZD loan (see paragraph [4.42]).

4.3 The Discussion Document does not provide adequate policy reasons for the difference in treatment between NZD and foreign currency loans. The only justification provided is the "significant complexity in designing transitional phasing rules" for foreign currency loans. The tax system should not penalise taxpayers that have legitimate business reasons for financing a New Zealand property with a foreign currency loan if there is no clear policy rationale for doing so.

4.4 Although outside the scope of the Discussion Document, we also consider more generally that guidance should be provided on the application of the mixed use asset rules to foreign currency denominated financial arrangements that fund the acquisition and upkeep of mixed use assets.

5. **Fourth submission: support for Option B treatment of interest on sale of revenue account property**

Submission

5.1 Option B, allowing interest deductions in full at the point of sale, should be implemented.

Explanation

5.2 In our view, the risk of taxpayers choosing to sell their property within the bright-line period is not substantial enough to justify the departure from tax being imposed on a taxpayer's actual income.

6. **Fifth submission: continued investment rule**

Submission

6.1 The continued investment rule should not be implemented.

Explanation

6.2 Implementation of the continued investment rule would result in excessive administrative costs. For example, significant due diligence may be required by purchasers of a residential investment property, to determine if the property had ever been owner-occupied.

6.3 The expressed policy rationale behind implementation of the continued investment rule is to encourage investors to invest in new properties rather than existing properties. The new build exemption on its own should be sufficient for that purpose. The additional incentive created under the continued investment rule would not outweigh the associated administrative burden.

7. **Final submission: identification of interest relating to mixed use properties**

Submission

7.1 Close companies that own mixed-use asset residential investment properties should be given a choice whether to use the existing tracing methodology for mixed-use assets in s DG 11, or another tracing methodology under the Proposed Rules.

Explanation

7.2 The Discussion Document proposes using the s DG 11 methodology to identify interest expenditure relating to mixed-use residential investment property assets held by close companies.

7.3 The methodology under s DG 11 requires close companies to first apply outstanding debt on which interest is charged to the "asset value" of their mixed-use asset. The result of that methodology is often an over-allocation of the company's debt to the mixed-use asset and therefore, an overstated non-deductible interest expenditure amount.

7.4 Under the tracing methodology, taxpayers that can produce evidence of the debt being used for purposes other than in relation to the mixed-use asset can instead apportion the debt accordingly. Under the apportionment methodology for pre-27 March loans, taxpayers would be able to apportion the debt based on the relative value of all assets. Under the stacking methodology for pre-27 March loans, taxpayers would allocate the debt first to assets that are not residential investment properties (see paragraph [4.21]).

7.5 The s DG 11 methodology therefore creates unequitable outcomes for taxpayers that hold mixed-use assets and take out loans for purposes other than in relation to the relevant mixed-asset, as it can produce a different non-deductible interest expenditure amount purely because a property is occasionally used privately.

7.6 Some taxpayers may prefer to use the s DG 11 methodology to reduce complexity and compliance costs. If, however, taxpayers have appropriate documentation to show that an amount of debt has been applied to a specific asset, or would prefer to use the stacking or apportionment methods for pre-27 March loans, they should have the option to use the other methods proposed in the Discussion Document.

From: s 9(2)(a) [redacted]
To: Policy Webmaster
Subject: Submission - Design of the Interest Limitation Rules and Additional Bright-line Rules
Date: Monday, 12 July 2021 9:42:40 AM
Attachments: Submission - Design of the Interest Limitation Rules & Additional Bright-line Rules.pdf

Dear Sir / Madam

Please find attached our submission for the Design of the Interest Limitation Rules and Additional Bright-line Rules.

Kind Regards

s 9(2)(a) [redacted]

nsaTax
| Taxation and Trust Specialists |

Level 1, 5 Crummer Road
Grey Lynn
P O Box 3697
Auckland 1140

Tel: +64 9 309 6505
Fax: +64 9 309 6506
Website: www.nsatax.co.nz

nsaTax
Taxation and Trust Specialists

nsaTax Limited
Level 1, 5 Crummer Road, Grey Lynn
PO Box 3697, Auckland 1140, New Zealand
Phone 09 309 6505 | Fax 09 309 6506
www.nsatax.co.nz

Email message

To:	Inland Reveue Department
Email:	policy.webmaster@ird.govt.nz
From:	nsaTax Limited
Date:	12 July 2021
Subject:	**DESIGN OF THE INTEREST LIMITATION RULES AND ADDITIONAL BRIGHT-LINE RULES**

Dear Sir/Madam

Please find below our submissions on the interest limitation rules as announced by the Government on 23 March 2021 and contained in the Government discussion document titled "Design of the interest limitation rules and additional bright-line rules" issued on 10 June 2021.

General Observations

1. We would firstly like to comment that the proposed changes are not in line with what are generally accepted as being cornerstone objectives of a tax system.

2. The primary function of a tax system is to raise revenue to fund Government expenditure, not to promote social policy.

3. A good tax system includes objectives of efficiency, equity, certainty and simplicity.

4. We consider that the proposed changes fail miserably on all counts.

5. An efficient tax is one that has no impact on investment decisions. In other words, the tax operates in such a way as to make investment decisions tax neutral, allowing resources to flow to investments that maximise real returns, which benefits not only the investor, but society as a whole.

6. A tax policy specifically designed to influence investor decisions such as the current proposal is clearly at odds with this, and therefore can never be regarded as good policy.

7. Another cornerstone of a good tax policy is that of equity. In other words, the tax system should promote integrity and fairness between taxpayers. Disadvantaging taxpayers who choose to invest in residential rental properties is clearly contrary to this policy. The proposals undermine the integrity of the tax system.

8. When the loss ring-fencing rules were introduced, part of the rationale was that residential rental investors should not gain an advantage over other taxpayers by being able to offset losses against their professional income, thus levelling the playing field.

9. No such rationale can be applied to the suggested changes, which blatantly discriminate against residential property investors.

10. The new rules also discriminate against mum and dad investors who perhaps only own one rental investment (as a savings plan for their retirement which one would think should be encouraged), compared with more well-heeled investors who would be in a position to switch borrowings between investments to achieve interest deductibility.

11. Perhaps the most concerning feature of all is the effect the proposed rules will have on simplicity. In order for taxpayers to be able to comply with their tax obligations, a tax system should be as simple as possible. There are obviously complexities in the existing legislation. However, for the most part, an ordinary mum and dad taxpayer with a residential rental property is currently able to calculate their income from that property relatively easily.

12. The proposed new rules introduce a significant level of complexity that will make it virtually impossible for such investors to comply with their tax obligations without professional assistance, and even then, many tax practitioners may struggle to cope with the level of complexity. This will potentially lead to widespread non-compliance and will also undermine the integrity of the tax system in the same way as the old FIF regime did.

13. A key problem with achieving simplicity is the inconsistency of the proposed treatment between the interest deductibility rules, the bright-line rules and the residential loss ring-fencing rules.

14. Take for example the case of a mixed property – a residential apartment above a shop. Under the bright-line test an all or nothing approach is followed i.e. either the whole property is caught by the bright-line test or the whole property is outside the bright-line test, yet for the purposes of the interest deductibility rules, it is suggested that this is not appropriate and that interest should be pro-rated. Likewise, under these proposals a direct tracing is proposed in the case of shares held in a residential investment property-rich company whereas a global financing approach applies to interests held in a residential land-rich entity under the residential loss ring-fencing rules.

15. There are multiple further examples of such inconsistencies, including the interest deductibility rules only applying on a property-by-property basis, whereas loss ring-fencing can apply on a portfolio basis. The list goes on.

16. Therefore, we consider the proposed rules to be extremely poor policy.

17. Notwithstanding our above comments, we comment further in detail below on the proposed rules.

Chapter 2: Residential Property Subject to Interest Limitation

18. *Property situated outside New Zealand:* We agree the interest limitation rules should only apply to New Zealand situated property. The residential loss ring-fencing rules should also be modified to be consistent with these rules for the exact reasons outlined in paragraph 2.19 of the discussion document.

19. *Change of use:* Interest deductions in relation to a residential rental property acquired prior to 27 March 2021 but for which a change of use occurs after 27 March 2021 should be fully denied from 1 October 2021. We consider the date of acquisition is irrelevant and the Government's proposal lacks consistency with properties purchased post 27 March 2021.

20. *Business premises:* An apportionment should be required for dual-purpose properties rather than an all or nothing approach. Such an apportionment should be based on existing general tax principles. The current definition of business premises is adequate. To create a definition specifically for the residential land interest limitation rules which differs from the definition used for the land sales provisions would create confusion.

21. *Employee accommodation:* A specific carve out for employee accommodation should be included within the interest limitation rules provided such accommodation is necessary for the purposes of the employee carrying out their employment duties e.g. a farm worker who lives remotely and is required to be on site/on call 24/7. A carve out should not be provided for employee accommodation which is easily substitutable for owner-occupied housing. To do so would be entirely inconsistent with the [poorly considered] stated policy intent of these rules. For example, a shareholder in a company may wish to invest in a residential rental property personally, outside their company's business but will not be entitled to interest deductions under the proposed rules. Instead, the shareholder's company could acquire a residential rental property, rent it to an existing employee and claim full interest deductions notwithstanding there is no business case for providing such accommodation. This artificially skews investment decisions and will be an unintended effect of introducing these rules.

22. *Student accommodation:* Student accommodation as identified in paragraph 2.78 should not be subject to the interest limitation rules as such accommodation is not easily substitutable for owner-occupied housing. We

consider such a carve out would have limited impact in terms of encouraging the conversion of residential rental properties into student accommodation given there is limited demand for such property and given the associated risks with student accommodation. The provision of student accommodation is not a preferred investment for the majority of residential property investors. However, the prospect of such a carve out encouraging conversion of existing properties will be an unintended consequence of introducing these rules. To design a carve out to counter this will add further complexity to an already complex proposal.

23. *Short-stay accommodation:* Short-stay accommodation which is not suitable for long-term owner-occupied residential accommodation should be carved out. The carve out should be based on the design/configuration of the property and not the scale of the activity. The prospect of such a carve out encouraging conversion of existing properties will be an unintended consequence of introducing such poorly thought-out rules, however, to design a carve out to counter this will add further complexity to an already complex proposal.

24. *Serviced apartments:* Serviced apartments which are not suitable for long-term owner-occupied residential accommodation should be carved out. The carve out should be based on the design/configuration of the property rather than the scale of the activity. The prospect of such a carve out encouraging conversion of existing properties will be an unintended consequence of introducing such poorly thought-out rules. However, to design a carve out to counter this will add further complexity to an already complex proposal.

Chapter 3: Entities Affected by Interest Limitation

25. *Close companies:* The implication that a company (not being a close company) which holds a single residential rental property is unlikely to contribute significantly to high house prices whereas a close company which also holds a single residential rental property will contribute significantly to high house prices is fundamentally flawed and, quite frankly, ludicrous and lacks consistency. Likewise, the extent of an entities, other assets, has absolutely no bearing on the residential property market. Where both entity types hold a single residential rental property that might otherwise be available for purchase by a first home buyer, this will have exactly the same impact on the property market and house prices.

26. *Close companies:* The suggestion that tracing the use of funds is “too hard” for a company which is not a close company is not a reason to carve them out. Furthermore, the fact that an ordinary company may have the ability to arrange finances so as to circumvent these rules is not a policy reason to carve them out. Many close companies will have the same ability. The ability to structure around these rules will lead to unintended consequences.

27. *Ownership interests in residential investment property-rich companies:* These rules will add even more complication to an already complicated proposal. The proposal effectively requires the shareholder to look through a chain of

companies to identify the nature of each company's assets. Take, for example, the overly simplified example 4 on page 36 of the discussion document. Using that example, if B Ltd's only asset was shares in C Ltd, the Government appears to be suggesting there is no requirement to look through to C Ltd to identify C Ltd's assets? If so, this appears a simple mechanism to plan around the proposed rules and will encourage multiple layers of companies to circumvent them. If not, and the intention is that we must look through B Ltd and C Ltd to identify the nature of the assets in C Ltd, this contradicts the stated intent of the rules.

28. *Residential investment property-rich threshold:* We agree that new builds and residential properties covered by the development exemption should be included for the purpose of the "residential investment property-rich" threshold.

29. *Residential property subject to the development exemption:* The development exemption is proposed to apply on a property-by-property basis for interest deductions, yet the residential loss ring-fencing rules may apply on a property-by-property or portfolio basis, the latter generally resulting in lower compliance costs. Disparity between the two regimes will create confusion and complexity, and will likely rule out use of the portfolio approach for developers.

30. *Valuations:* The recommendation to use current council valuations is flawed as these valuations are typically out of date within a matter of months of issue. Current CV's in Auckland are already four years and bear no relationship to current values. Currently, the average selling price of a residential property in Auckland is conservatively between 25% and 35% above CV and this would be typical of many regions throughout New Zealand. Market valuations should be used to measure the value of assets or at the very least be allowed as an optional alternative.

31. *Valuations:* Tax book value or market value should be allowed for calculating the residential investment property percentage for property other than land, improvements and depreciable property, and this choice should be at the option of the taxpayer. Whatever the approach is that the Government adopts, the interest limitation rules should be consistent with the residential loss ring-fencing rules to avoid confusion and undue complexity.

Chapter 4: Interest allocation: how to identify which interest expenses are subject to limitation

32. We agree that it is appropriate to adopt a tracing approach to identify the use of borrowed funds when determining interest deductibility.

33. Existing law on tracing should be relied on subject to the proposed exceptions for transitional situations.

34. We have traditionally adopted the rule in *Clayton's* case to apply repayments on a FIFO basis where revolving credit or overdraft facilities have been used

for deductible and non-deductible purposes. Taxpayers do have the ability to use separate facilities to alleviate the problem of non-deductibility.

35. We agree with the proposal to allow continued interest deductibility where pre-27 March 2021 loans are refinanced. This is consistent with current case law on interest deductibility in a refinancing situation.

36. We also agree that it is appropriate to apply a tracing approach where the new loan is larger than the existing loan.

37. From a tax deductibility perspective, we don't see any reason to make an exception where a NZD loan is refinanced with a foreign currency denominated loan. We submit that foreign currency borrowings should also benefit from the refinancing concession.

38. Foreign currency borrowings could be obtained by taxpayers borrowing from non-resident relatives.

39. We agree with the proposal to allow taxpayers to have the choice whether to apply tracing where they have sufficient information to do so in relation to pre-27 March loans or to apply the transition approaches - apportionment or stacking.

40. While conceptually the apportionment approach provides a better reflection of the use of borrowed funds, we prefer the stacking approach which is more taxpayer friendly. Given our opposition to the interest limitation rules being introduced, we encourage any proposals which are beneficial for taxpayers. Market values are not relevant in determining the use of borrowed funds for interest deductibility purposes. Interest on funds borrowed to fund the acquisition of a rental property which may have declined in value (say due to weathertightness issues) could be adversely affected under the stacking approach.

41. Revolving credit facilities have always caused problems for interest deductibility where borrowings are used for both deductible and non-deductible purposes. The proposed high watermark is a pragmatic approach which will alleviate a lot of the potential complexities.

42. We prefer a loan by loan basis rather than portfolio. We have not identified any significant adverse effects that could occur under a loan by loan basis.

43. We do not agree that interest on foreign currency loans should be non-deductible after 1 October 2021. Taxpayers should not be forced to refinance in NZD to obtain continued interest deductibility. In our view, there is no justification for treating foreign currency loans differently from NZD loans.

Chapter 5: Disposal of Property Subject to Interest Limitation

Options for Treatment of Interest When Sales are on Revenue Account (Gain is Taxable).

44. It is accepted at point 5.10 that where property is held on revenue account, any rental income is taxable, expenses (including interest) are deductible and any gains or losses at the point of sale are taxable or deductible as appropriate. It is also stated that bright-line land is not held on revenue account unless and until it is known that it will be sold within the bright-line period.

45. Where a land sale is subject to tax under the bright-line test, the outcome should be the same as for land held on revenue account. The focus should rightly be on whether the land sale proceeds are taxable. If the answer is yes, all expenses incurred in relation to the property should be tax deductible.

46. The fact that it is not known at the time of purchasing the property whether any gains will be taxable is irrelevant. While we do not support the position of non-deductibility of interest as and when incurred, it could be argued that the deferral supports the position that the interest deduction is deferred until the status of the sale is determined i.e., capital or revenue.

47. Once that position is determined the treatment of deferred interest deductions should follow the tax treatment of the sale. If the sale is on revenue account, the interest deductions should release and be fully tax deductible.

48. For this reason, we support Option B as set out on page 57. This is consistent with general tax policy i.e., expenses are tax deductible if incurred in deriving taxable income and reflects the true economic gain or loss for the property owner.

Options for Treatment of Interest When Sales are on Capital Account (Gain is Non-taxable)

49. While we do not support the position of non-deductibility of interest as and when incurred, Option F would be the most equitable position. Interest should be allowed as a deduction if the amount incurred exceeds the non-taxable gain from the property sale.

50. To be denied a total deduction for deferred interest period is an overreach. For this reason, we do not support Option E.

Chapter 7: Definition of New Build

51. If the aim is to increase housing supply, it seems odd that renovating an uninhabitable dwelling to make it habitable does not qualify when the replacement of an existing dwelling on a one for one basis would qualify. Clearly the former increases housing stock whereas the latter does not.

52. If increasing housing supply is the main objective, then a one for one replacement should not qualify for the exemption. This creates a bias towards demolishing existing stock and replacing it with a new dwelling rather than preserving or improving existing stock. This can hardly be consistent with the Government's environmental objectives.

53. Has the Government considered the building regulations in designing the "new build" exemptions? If the issue of a CCC is required for a dwelling to satisfy the definition of a "new build", perhaps the issue regarding the above anomalies could be remedied by aligning the proposals with building regulations. Has the Government consulted other departments responsible for building regulations, health and safety, environmental issues etc.? The tax policy should not be a knee jerk reaction in isolation of other Government policies.

54. Surely the building consent process or sign-off procedures for issuing a CCC can be utilised to confirm or verify whether more than one dwelling has been created.

55. Are there situations where a new dwelling could be created that does not require the issue of a CCC?

56. What are the minimum requirements to be a "self-contained" dwelling? Does a kitchen without an oven qualify? Would a kitchen with a bench top oven and a microwave be sufficient?

Chapter 8: New Building Exemption from Interest Limitation

57. The exemption should apply for a fixed period commencing on the date that the CCC is issued and should apply regardless of whether the person is an early owner or a subsequent owner. The date the CCC is issued could be recorded on the title, which would make it simple to comply with and administer and would not create a bias towards building and holding new builds. The shorter the period the greater the turnover of new housing stock to enable new builds to be accessible by owner-occupiers.

58. We do not support the proposed "continuity investment rule". It seems inconsistent with the proposals to allow interest deductions for a fixed period (of say up to 20 years) or even longer if an "early owner" is allowed interest deductions for perpetuity and adds additional complexity to both the drafting of the legislation, compliance and administration. It is not clear how this rule would operate in practice and the compliance costs (both for the taxpayer and Inland Revenue) are likely to be significant.

59. If the intention is to discourage investors from the lock in effect of building and holding and to free up new builds, this could be achieved by setting a shorter exemption period.

60. The "continuity investment rule" is a clear example of a rule that will distort taxpayer behaviour. That is, the tax treatment is likely to influence a taxpayer's decision, which goes against the principle of neutrality.

61. We agree that a fair and reasonable apportionment should apply to determine the amount of interest deductions available.

Chapter 9: Bright-line Five Year Bright-line Test for New Builds

62. An apportionment would only be required if the main home exclusion does not apply. If the main home exclusion applies, for example, because dwelling has been used predominantly on a time and area basis as a main home then s CB 16A would apply to the disposal and no apportionment would be required.

63. If the main home exclusion does not apply, then we agree, that the person would need to ascertain that part of the land that is a "new build" (subject to the 5 year rule) and that part of the land that is subject to the 10 year rule.

64. The proposed definition of a "new build" is a self-contained dwelling for which a CCC has been issued. If the CCC is not issued by the date that a sale and purchase agreement for sale is entered into, or within 5 years of the date that the person's name is registered on the title, it should not be a "new build" (as defined).

Chapter 10: Rollover Relief

65. The proposed interest limitation rules should not proceed as it is bad tax policy and will not achieve the Government's desire outcome of increasing the housing supply especially for first home buyers.

66. The allowance of interest deductions for new builds will only steer rental property investors in the direction of new builds which will serve to push up the price of new builds and make it harder for first home buyers to enter the market. First home buyers would be left with the market for existing houses, many of which would not meet the standards of the healthy homes targets imposed on landlords.

67. The Government announced the policy on the basis that the rules would close a loophole in tax laws. There is no loophole. A property investor should continue to be entitled to an interest deduction on funds borrowed to acquire an income earning residential rental property, just as any other investor or business who borrows to buys income earning assets is entitled to an interest deduction on funds borrowed to acquire such assets.

68. There is no tax mischief or policy outcomes that are addressed by the proposed interest limitation rules.

69. In the event the Government proceeds with the flawed interest limitation policy, then we agree that rollover relief should be allowed in cases where there is no change in the economic ownership of the land for family trusts, look-through companies and partnerships.

70. The proposal for bright-line test rollover relief is to be limited to situations where there is no consideration provided. Within the context of family trusts, look-through companies and partnerships, the situation where no consideration is provided, i.e. provided “gratuitously”, would be extremely rare. Rollover relief should be provided in these situations where there is no change in economic ownership whether consideration is provided or not, especially where the relevant transaction does not produce any cashflow to cover the tax that may be payable under the bright-line test. Most often the consideration is in the form of a loan, but where there is no change in economic ownership with these “family” type structures, rollover relief should be provided whether there is consideration or not.

71. We agree that the Government should address the problems families face with the application of s CG 1 especially for transactions within families, which can result in tax being imposed on a non-existent paper profit.

72. We agree that full rollover relief should be provided for land covered by the new build exemption under relationship property settlements.

73. We agree that in the event the proposal proceed, then full rollover relief should be provided for transfers on death.

74. Full rollover relief should be allowed not only on the transfer from the deceased to the executor but also the executor to the beneficiaries, and rollover relief should last until the beneficiary has disposed of the property. Rollover relief should also be allowed when the beneficiaries under the will reallocate their entitlement between them. For example, where an estate consists of cash and a rental property divided equally between two beneficiaries and they decide between them, that one takes the cash and one takes the property with borrowings to equalise the value of the distributions.

75. We agree that to the extent that where there is no change of ownership when a natural person disposes of land to themselves, no bright-line test issues should arise. We consider this reflects current law, but the legislation should clarify this. Rollover relief should also be provided in respect of the interest limitation when the land qualifies for the new build exemption.

76. We agree that full interest limitation and bright-line test rollover relief should be provided for the settlement of residential land into a family trust. The proposal that every beneficiary is associated to the settlor will require a widening of the definition of the associated persons test for rollover relief. The test should be widened to include all descendants, charities, and any person for whom the settlor has natural love and affection.

77. We agree that full interest limitation and bright-line test rollover relief should be provided when residential land is resettled onto a new trust with the same classes of beneficiaries as suggested above, i.e. all descendants, charities, and any person for whom the settlor has natural love and affection.

78. We agree that full interest limitation and bright-line test rollover relief should apply for residential land transferred between an LTC and an owner, or a partner and a partnership when the pre-transfer and post-transfer of ownership is in proportion to the interest in land prior to the disposal and their cost base.

79. Paragraph 10.75 referring to transfers between an LTC and its owners has a footnote number 50 suggesting the dividend rules could apply for a disposal of land from an LTC to an owner. As an LTC is not a company for income tax purposes, the dividend rules do not apply.

80. The application of rollover relief for Maori collectively owned land should be considered through a consultation process with Iwi as they are the appropriate persons to address the issues.

Chapter 11: Interposed Entities

81. We submit that full tracing should be allowed where taxpayers hold sufficient information to do so. The majority of interposed entities will likely be closely held and information will be readily available. The proposed affected assets percentage only takes into account the market value of assets held by the interposed entity and doesn't take into account the use to which the borrowed funds were applied to by the interposed entity once injected as share capital.

82. This could lead to inequitable outcomes.

83. For example, a close company owns a commercial rental property and a residential rental property, both acquired pre 27 March 2021. The shareholder borrowed funds which were used to subscribed for shares in the company. The company used those funds to acquire the commercial property. The company borrowed funds to acquire the residential property and after 1 October 2021 interest deductions relating to the residential property are subject to phasing. During the 2022 year, the residential property accounts for 50% of the company's assets. The company is a residential interposed entity as the affected assets percentage exceeds 10%. The shareholder's interest deductions will be limited even though the interposed entity did not use any of the capital funded by the borrowings to acquire residential rental property.

84. We submit that this outcome is inequitable. Full tracing would alleviate this problem. It should be sufficient that the company's interest deductions are restricted without adding further insult to injury by also restricting the shareholder's interest deductions where all of the borrowings relating to the residential property have been restricted.

85. At 11.13 the Commissioner states that a full tracing approach is not preferred because taxpayers who do not control the entity may find it difficult to obtain information required to undertake tracing. Given that the interposed entity rules specifically target close companies, we submit that shareholders in a close company would generally be able to apply tracing and should be allowed the option to do so.

86. Taxpayers should be allowed to choose between using a daily or annual apportionment calculation. We agree that a daily calculation is more accurate and should therefore produce a fairer outcome. However, taxpayers should have the option to use an annual calculation method in order to minimise compliance costs, subject to an anti-avoidance rule.

87. Taxpayers with larger portfolios are more likely to hold residential properties in a close company.

88. It is sometimes preferable for close company borrowings to be made at the shareholder level in order to obtain lower interest rates as banks often charge higher rates to companies. Banks sometimes prefer to lend to individuals as opposed to their companies.

89. We agree that the interposed entity rules should not be applied to LTCs or partnerships.

Chapter 12: Implications for the Rental Loss Ring-fencing Rules

90. The interface of the proposed new rules with the RLR rules introduce complexities that are not easily reconciled including:

- Whether new builds should be exempt from the RLR;
- When and if deferred interest can be deducted;
- How accumulated losses are released on sale of a property.

91. The approach of applying the interest limitation rules to establish deductible expenditure then applying the RLR to this deductible expenditure only partly deals with the interface of the rules.

92. We assume that where a property not subject to interest limitation rules is in a portfolio of other properties that are subject to the interest limitation rules, the interest can still be taken into account as a deduction.

93. If it is decided that RLR rules do not apply where the new build exemption for interest limitation applies these properties would need to be accounted for on a property by property basis.

94. If it is decided to allow interest to be deducted on sale, there would need to be a mechanism to capture interest disallowed that is additional to the ring-fenced amounts.

95. We consider that interest previously disallowed should be allowed as a deduction on sale. As outlined in the discussion document, there are several options that could be considered, and complexities would arise in administering this.

96. On balance, it may be preferable to scrap the RLR rules altogether, as it may be impossible to reconcile the two regimes, given the complexities that already exist under the RLR rules on how accumulated losses are dealt with on the sale of a property. Realistically a key component of ring-fenced losses has been interest deductions which will in most cases no longer be available. In our view, the RLR rules are sufficient to disincentivise taxpayers from investing in residential rental properties meaning interest limitation rules are not required i.e. only one of those regimes is necessary.

97. The same tax principles should be adopted for RLR, interest limitation and bright-line rules. A taxpayer should not have to consider which of the above set of rules apply before being able to apply the correct treatment. The rules should be consistent across all areas. For example, the bright-line all or nothing test is not consistent with the pro-rating approach for interest limitation.

Chapter 13: Interest Limitation and Mixed-Use Residential Property

98. We agree that tracing principles should continue to apply.

99. We consider that a stacking rule should apply when allocating debts of a close company.

100. We agree that quarantining should continue to apply.

101. We agree that the allowance of interest deductions on sale of a property be treated on a consistent basis with the rules applying to disposal of property subject to interest limitation. However, consideration will also need to be given to deductibility of the portion of interest disallowed solely in respect of the mixed use of the property.

102. In our experience, it is not common for a residential property MUA to be held in a close company.

103. As it is not common for a residential MUA property to be held in a close company, it is also not common for a close company to hold a residential property and other MUAs in the same close company.

104. The conflict in the rules described is not addressed due to a deliberate choice not to use close companies for such assets due to the complexities of applying the rules.

Chapter 14: Administration

105. We consider that there should be no additional field in the tax return for interest incurred compared to interest deducted, consistent with current policy where taxpayers are already required to hold this information.

106. A yes/no key point could be included where the taxpayer indicates that they are applying the new build concession (consistent with the self-assessment regime).

107. A CCC would be a starting point of records to be held to show that the taxpayer is eligible for the new rules. However, we see no point in mandating that other information be held. This would come back to general rules of evidential support.

Yours sincerely
nsaTax Limited

nsaTax Limited

Email: nsaTax@nsatax.co.nz

Ref: 184888_1

From:	s 9(2)(a)
To:	Policy Webmaster
Subject:	Design of the interest limitation rule and additional bright- line rules
Date:	Monday, 12 July 2021 9:46:59 AM

Dear Sir/Madam

I strongly disagree with the proposed interest limitation rules.

Overall I disagree with the proposed interest limitation rules. It doesn't do anything to help with the supply of housing, and does nothing to achieve one of the government's key housing objectives, which is to ensure “affordable homes to call their own”. I believe rents will increase over time as more existing rentals are sold to personal house owners as the number of available rental properties will be reduced.

And the people who want to rent (new migrants, temporary workers, or simply people who don't want long term commitments) will find it very hard to get an affordable rental and will lead to a bigger crisis.

If a long term hold rental property is sold, and is caught by the brightline rules or other taxing provisions, then interest should be fully deductible in the year of sale. The long term hold investor is already paying a large amount of tax if the sale is taxable, and if interest was not an allowable deduction, tax would then be at an unreasonable level and would severely penalize the property owner. If interest was not deductible for a taxable sale, it could see an owner paying more tax than the gain they made.

The 143 page discussion document shows that these rules are already too complicated and will be an unfair burden on taxpayers to comply with the rules. The new rules need to be simple and easy for all to follow.

Thanks

s 9(2)(a)

From: s 9(2)(a)
To: Policy Webmaster
Subject: Fwd: Design of the interest limitation rule and additional bright-line rules
Date: Monday, 12 July 2021 10:04:35 AM
Attachments: Interest Deductions Submission.pdf

To Whom it May Concern,

Please find my submission attached.

Regards,
s 9(2)(a)

11th July 2021

Submission on the Government Discussion Document for the Design of the Interest Limitation Rule & Additional Bright-Line Rules

My main points are as follows:

1) Rollover Relief

The lack of a related-party exemption from Bright Line has been a significant issue in this legislation going back to 2015, but only made worse with the 2018 and 2021 changes extending the test. If there is no to little change to the economic ownership, then the bright line period should remain unaffected & there should be no tax imposed on the notional gains in value between any legal entities (eg: originally under personal name where the ownership is changed to a Look Through Company). I don't agree that the makeup of the LTC needs to be owned in the same proportions though (ie: joint ownership (50:50) may not be represented in the LTC due to tax provisions (ie: it may be 90:10). This scenario should still benefit from the rollover relief.

2) New Build Definition

I agree with what is defined as a new build for "simple new builds". The three examples that make up "complex new builds" should be included as well. It is common, especially in Auckland, to build minor dwellings and/or duplex's on the back of an existing section and not undertake a subdivision. I agree that splitting a house into 2 or more dwellings (self-contained) should be considered a new build. If an existing house is split into 2 houses, then both houses should be considered new builds (even if one part of the house didn't include renovations. LVR limitation should be in line with new builds definitions and durations spelt out in this legislation (see last paragraph of this submission).

3) New Build Exemption from Interest Deductibility

The length of time that interest can be deducted on new builds must be a very lengthy period. I would prefer perpetuity for the person who built the house or directly purchased off the developer as they have added to New Zealand's housing stock and will continue to do so as long as it is utilised an a dwelling. The government wants this to occur so the purchaser should not be penalised at all during the period they own the dwelling.

There needs to be consideration for "early owners" of new build properties purchased prior to these new rules. For there to be no grandfathering is not a fair outcome at all.

This is particularly relevant for those who received CCC very recently, as these investors are in the ridiculous situation where the existing investor does not get the new build exemption but if they were to sell it to an unrelated party within 12 months of

CCC that purchaser would be exempt. For all new builds that received CCC from the 27th March 2020, the early purchaser should be included in the exemption.

4) Subsequent Purchasers of New Builds

The exemption should be applicable to subsequent purchases of the property from the early owner. The exemption should be available to the early owner in perpetuity and for at least 20 years for subsequent owners. There should still be incentive for subsequent owners to own modern housing stock into the future, especially investors. Otherwise there will be no demand for investors to be subsequent purchases which limits market resale.

5) Use as a Main House

A property should not cease to qualify for the new build exemption once it has been lived in by an owner occupier (Continued Investment Rule). It should not matter what the use of the dwelling has been utilised for. If it qualifies as a new build post 27th March 2021, it should enjoy the tax benefits of this for whatever period subsequent purchases can utilise this provision (eg: 20 years). It shouldn't matter if the house was utilised as an owner occupier for a period or not; this doesn't change the underlying qualifying aspects of the property being a new build. A new build is a new build and is adding to the housing stock of New Zealand, no matter its intermittent use during this period. I also think working out all these uses over say 15 years would be very difficult, notwithstanding the fact that investors should also not be penalised if they move into their rental temporary for a year and then rent it out again for the subsequent purchases to not qualify for interest deductibility. That will be a massive, unfair penalty when compared to other houses on the markets of the same era & construction. I am of the strong opinion that the continued investment rule would not support the objective of the new build exemption.

6) New Build & Non-New Build

I agree with the proposed approach where a proportion of the loan associated with the new build (on the same title as an existing dwelling) should apply. You shouldn't have to build a new dwelling on a separate title.

7) Side Note – LVR Limitations for New Build's

If the government & IRD are serious about sorting out housing supply issues in New Zealand and are wanting investors to help them fix this problem, then the LVR restrictions (or lack thereof) for new builds should be in line with the duration that a new build is considered a new build in terms of interest deductibility. For example: If an investor purchases a new build today for $500,000, the main banks require a 20% deposit ($100,000) to obtain lending. However, the minute that dwelling receives CCC and is rented out, the dwelling is considered existing stock where 40% equity is required (now $200,000). This will result in negative equity where instead of it taking 5 years to borrow against this property to purchase another new build (in line with the government agenda), it will take 10 or 11 years. While interest deductibility and the removal of LVR limitations for new builds are meant to entice investors to building/purchasing new stock, something needs to be done around LVR's once the dwelling is built, as it is backward thinking to then take away that incentive. To really promote the continued investment in new build properties, new builds should remain new builds for both interest deductibility and LVR's in perpetuity for the first owner.

You can contact me to discuss the points raised on s 9(2)(a) [redacted]

Regards,

s 9(2)(a) [redacted]

Dated: 11th July 2021

From:	s 9(2)(a) [redacted] (Fletcher Building)
To:	Policy Webmaster
Cc:	s 9(2) [redacted] (Fletcher Building)
Subject:	Design of the interest limitation rule and additional bright-line rules
Date:	Monday, 12 July 2021 10:35:33 AM
Attachments:	Interest limitation submission IRD vFinal.pdf

Hi

We attach a submission on behalf of the Fletcher Building Group of companies in relation to the Government discussion document, 'Design of the interest limitation rule and additional bright-line rules'.

Kind regards

s 9(2)(a) [redacted]

810 Great South Road, Penrose 1061
Private Bag 92114, Auckland 1142
New Zealand
www.fletcherbuilding.com

Fletcher Building Limited

Private Bag 92 114
Auckland 1142
810 Great South Road
Penrose
Auckland 1061
New Zealand

fletcherbuilding.com
+64 9 525 9000

12 July 2021

Design of the interest limitation rule and additional bright-line rules
C/- David Carrigan
Deputy Commissioner, Policy and Regulatory Stewardship
Inland Revenue
PO Box 2198
WELLINGTON

Dear David

Design of the Interest Limitation Rule and Additional Bright-line Rules: A Government Discussion Document
Fletcher Building Group submission

The Fletcher Building Group ("the FB Group"), comprising the listed company Fletcher Building Limited and its wholly owned New Zealand subsidiaries, is writing to comment on the Government discussion document "Design of the interest limitation rule and additional bright-line rules" ("the discussion document").

We submit the following general comments in respect of the discussion document:

i. We understand it is generally expected that large businesses and employers, such as the FB Group, will be excluded from the proposals. However, the current proposals require a significant amount of work to be undertaken by the FB Group to evidence it is not subject to the proposals in respect of any minor or incidental residential properties that are held primarily for business purposes. For example:

   a. The formula to calculate the residential investment property percentage is proposed to apply on a tax consolidated group basis. This will add compliance costs and complexity to the FB Group calculations. We propose measurement on an accounting group basis, like the methodology adopted for thin capitalisation, would be more appropriate.

   b. The discussion document proposes to calculate the residential investment property percentage using market values and including land that would otherwise qualify for an exemption (e.g. development land or new build). These factors will greatly increase compliance costs for the FB Group, which holds a material amount of land reserved for development. Accounting values should be an option to minimise compliance costs across all asset categories.

ii. We understand the Government has a dual focus on increasing the supply of housing in NZ and reducing investor pressure on house prices and make it easier for first home buyers to own their own homes. The FB Group considers that providing for a full exclusion for “build-to-rent” (“BTR”) properties from the proposals would align with the Government’s first objective. Excluding BTR would be more comparable for institutional investors to the UK, US and Australian markets where BTR supply of rental housing has grown significantly and would encourage its growth in the New Zealand market.

iii. We are concerned that the timeframe committed to by the Government, to have the new rules in draft legislation before Parliament within 6 months of the first public announcement and within 11 weeks of receiving submissions on the discussion document, is too short to ensure the final legislation is fit for purpose and does not require subsequent remedial amendments. This has the potential to place pressure on capacity and resources within Inland Revenue and reduce their ability to focus on other tax policy measures.

iv. The fiscal impact (and revenue gain) of the new rules have not yet been accounted for by the Government and therefore, there is no existing fiscal requirement for the proposals to be enacted by a certain date. As such, to assist Officials in drafting legislation, the legislative process should be slowed down, and the application date should be extended by at least another 6 months to 1 April 2022.

Appended to this letter are our responses to some of the specific consultation questions in the discussion document that are relevant to the interests of the FB Group.

We appreciate the opportunity to submit on this discussion document.

Yours sincerely

s 9(2)(b)(ii)

[redacted]